Canada. Royal commission on taxation.
Hearings. v. 35-37, 1958.

Mr Borden

ROYAL COMMISSION

ON

ENERGY

HEARINGS

HELD AT

CALGARY,

ALTA.

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ANGUS, STONEHOUSE & CO. LTD.
TORONTO, ONTARIO

ROYAL COMMISSION

ON

ENERGY

Hearings held at Calgary, commencing Tuesday, April 29, 1958, at 10.00 a.m.

PRESENT:

Mr. H. Borden, C.M.G., Q.C. -- Chairman

Mr. J.L. Levesque -- Member

Mr. G.E. Britnell -- Member

Dr. R.D. Howland -- Member

Mr. L.J. Ladner, Q.C. -- Member

Dr. R.M. Hardy -- Member

COMMISSION COUNSEL:

Mr. A.S. Pattillo, Q.C.

Mr. Miles H. Patterson.

Mr. J.F. Parkinson -- Secretary to the Commission.

Major N. Lafrance -- Assistant Secretary to the Commission.

APPEARANCES:

Representing Imperial Oil Limited:

Mr. J. R. White	-	President, Director
Mr. J. A. Cogan	-	Vice-President, Director
Mr. W. O. Twaits	-	Executive Vice-President, Director
Mr. W. D. Mackenzie	-	General Manager, Producing Department, Director
Mr. J. K. Jamieson	-	Vice-President, Director
Mr. J. W. Hamilton, Q.C.	-	Director
Mr. R. M. Crockett	-	Manager, Economics Department
Mr. F. G. Cottle	-	Manager of Transportation and Supply
Mr. J. D. Harvie	-	Manager of Producing Economics

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ANGUS, STONEHOUSE & CO. LTD.
TORONTO, ONTARIO

Tuesday,
May 6, 1958.

---On resuming at 10.00 a.m.

---Mr. Commissioner Ladner not present.

THE CHAIRMAN: Gentlemen, the Commission will now resume its hearings. I believe, Mr. Pattillo, before callin on you, I understand that Mr. White has some corrections he would like to have made in the transcript of yesterday's evidence. I think that we should do that before we re-commence examination this morning.

MR. WHITE: Thank you, Mr. Chairman.

On page 4832 in the 7th line, the word "own" should be "Venzuelan" and it should read "latterly we were bringing about 20,000 barrels of Venzuelan crude there."

In the 12th line it now reads "That was 100 per cent from Sarnia", and it should read "100 per cent subsidiary."

Page 4833, at the bottom of the page, the last sentence, "That does not sound very good, does it?" should read, ""That does not sound like very good business, does it?"

Page 4834, the third line down now reads, "We don't want you to feel that there is any

influence of a contract with Creole in the obligation, because no such contract exists." This should read, "We don't want you to feel that there is any influence of a contract with Creole which would preclude our use of Canadian crude at Montreal."

A little further down the page it now reads, "Yes, generally. There might be an occasional car comes around, but that would be an exception." That should read, "Yes, generally, there might be an occasional cargo coming around by ship."

On page 4837, 16 lines down, "1957, 41,000 barrels." The figures "41,000 barrels, products" should be eliminated.

In the fourth line from the bottom, "I don't know where they get the material"; this should read, "I don't know where they get their material."

On page 4840, the sixth line from the top, "Very, very little, Mr. Pattillo, with all this special stuff." This should read, "Very, very little, Mr. Pattillo, practically all specialties."

Page 4844, the second and third lines from the top, "or six to eight" should read, "say".

On page 4847, the eighth line from the

top, which now reads, "Sunoco Mobil" should read "Socony Mobil". Socony Mobil Oil is the correct designation, not Sunoco.

Page 4850, "we" becomes "they". The seventh line from the top, "Well, the elements of the exchange we would make with them do not exist in Detroit. We were taking ---" The "we" in this sentence becomes "they".

Page 4351, the fith and sixth lines from the top, "There is no problem there for Standard." This should read, "There is no problem there." Eliminate "for Standard"; it does not apply there at all.

Mr. Chairman, we have made minor errors in attributing production to certain companies and saying other companies did not have production or had a small production of 150 barrels a day. We can just leave it or make the correction, if you wish.

THE CHAIRMAN: I think that is a matter for your discretion. If you feel that those matters are in any way germane to the facts which the Commission should have before it, then I think you should correct them or put them on the record.

.MR. WHITE: I think these two items are not not germane. Page 4865, five lines from the top, the sentence reads, "I think we can answer

that, yes, Mr. Pattillo. Your Montreal complex --" The word "disadvantage" should be substituted for "complex" and it should read "Your Montreal disadvantage --".

Page 4866, line 8, which now reads, "Asserting of the mineral rights" should read "majority of the mineral rights."

Page 4867, on the third line, delete the word "pay" and substitute the word "take".

Page 4869, in the 11th line, the word "share" should be "shape".

THE CHAIRMAN: Is there someone in the organization with you here whom the reporters could contact in the event they were unable to fit in those changes?

MR. WHITE: I think, perhaps, they could contact me, Mr. Chairman.

THE CHAIRMAN: Thank you. Mr. Pattillo?

MR. PATTILLO: Thank you, Mr. Chairman.

Mr. White, just as we adjourned yesterday afternoon you were going to explain to us how pro rationing came into being in Alberta and what the situation was before it came into being.

MR. WHITE: Yes, Mr. Pattillo. I have a brief description here of the situation.

At the closing hour yesterday I indicated we would make a further statement on pro ration to market demand with particular reference to the

circumstances in which this procedure was initiated in Alberta. From what we said yesterday it must be evident that we consider pro ration to market demand to be an essential part of any sound conservation procedure that is appropriate for the circumstances that apply in Alberta.

When Alberta production was about to overtake the volume of local refinery requirements we urged the Conservation Board to adopt a procedure to pro rate allowable production to market demand. We stressed the view that the crude oil purchasers could not maintain an equitable reservoir withdrawal pattern without collusive agreements between them and that only the government agency had the facilities to cope with this problem equitably.

The Board declined to act in the belief the industry could effect ratable withdrawals on its own initiative.

Production overtook the available market early in 1949 and we were obliged to limit our purchases. We established uniform daily acceptance rates per well for each field which applied without distinction to all wells from which we purchased regardless of ownership. The attached schedule illustrates the extent of our curtailment below the Board allowables in the Redwater field during the period April 1949 through November 1950.

British American were faced with the same

necessity to reduce purchases but their demand pattern was not the same as ours. We have been unable to locate the data regarding British American purchase rates except for a few of the months shown on the schedule. If the data were available it would show that prior to the spring of 1950 British American purchase rates exceeded ours at times by a considerable margin. Thereafter, however, our purchases increased at a greater rate as shown for the months of June, through October of 1950 when our acceptance rates were more than double those of British American.

As a consequence, the producers who had chosen our competitor for their market outlet had good cause to convince the Conservation Board that purchaser pro ration was an unreliable method to achieve ratable takings from a common reservoir.

The Board issued its first pro ration order effective December 1, 1950, setting a rate for the Redwater field of 53 barrels per day per well, and has continued ever since to pro rate to market demand.

This incomplete table I have I will file with the Secretary. It indicates the following differences: August 5, 1949, Imperial was buying at the rate of 125 barrels per well per day. British American was buying at the rate of 100 barrels per well per day. This is for comparison.

The Conservation Board allowable was 450 barrels per well per day. Skipping down to June, with a Conservation Board allowable of 225 barrels per well per day, Imperial was buying 60 and British American 32. In September we bought 90 and British American 32, with the same Conservation Board allowable.

In October the Conservation Board allowable was 165 and we bought 77 and British American bought 32.

This is the situation I want to bring out, sir.

MR. PATTILLO: Now, while we are dealing with this subject, would you clear up confusion that has subsisted in my mind and on which I realize I was in error when I read your brief. Now, the maximum permissive rate which is fixed by the Conservation Board is the amount which, if good engineering practice is followed, is the maximum that can be taken from the well; is that correct?

MR. WHITE: That is my understanding.

MR. PATTILLO: Now, I had been under the belief that each month when the nominations came in the Conservation Board fixed an allowable for each well based on its proportion of the aggregate maximum permissive rate. Apparently I am wrong in that. Would you please explain to me how this economic allowable is fixed and whether it does vary and what is the effect of taking less than full production?

MR. WHITE: I am glad you raised that question, Mr. Pattillo. I think Mr. Mackenzie will answer that.

MR. MACKENZIE: Mr. Pattillo, before I do, may I first remind you that the Conservation Board of Alberta has been represented here and perhaps they could describe their method of pro rationing better than we could.

MR. PATTILLO: You mean they are here now?

MR. FRAWLEY: They are in attendance at the

hearings, yes; that is perhaps what Mr. Mackenzie means. There was something, you remember, in the gas brief that was presented in the February sittings.

MR. PATTILLO: Yes, that is right, Mr. Frawley. I certainly understood the M.P.R., but I am certainly confused on this economic allowable.

MR. WHITE: Mr. Pattillo, that is a very good suggestion. We would be very glad to do what we can; but the Board is here.

MR. FRAWLEY: We will add something, we might consider adding something in our oral brief on this matter if the Board would like, or there are two or three of the Board's engineers here and they might speak. Mr. Craig, engineer, is here, Mr. Mallard; the Secretary of the Board, and Mr. Cooper, the Board statistician.

THE CHAIRMAN: I do think from the point of view of the Commission that by the time we finish the hearings there will be such a mass of evidence to go through and if it can be done in a matter of sequence we are in a much better position to grasp the significance of these various terms and get an understanding. If Mr. White would prefer that someone from the Conservation Board give an explanation to the question Mr. Pattillo has asked, I think that would be very appropriate, Mr. Frawley.

MR. FRAWLEY: Perhaps it would be better if it were written out and read into the record.

Perhaps an off-the-cuff statement is not satisfactory but certainly if the engineers are satisfied to make that statement.....

MR. WHITE: Mr. Chairman, we would be very happy to give our reply to Mr. Pattillo's question, and if the Conservation Board wishes to include that later on in their brief, that would be fine.

THE CHAIRMAN: It is only a matter of getting the sequence. Perhaps you would go ahead, and if the Conservation Board would care to modify what you say or add to it in the submission which is going to be made a week next Friday, they could do so.

MR. MACKENZIE: Very well, sir.

I would like to make an opening comment on this description I will undertake to give. The proration mechanism is an over-simplification of what really takes place. Each well in the Province of Alberta is granted an economic allowance which in effect is a floor. The amount of oil in this economic allowance varies proportionately to the depth of well, but in general it ranges between 30 and 45 barrels per well per day. Each well is given this economic allowance. The total of all wells granted this economic allowance is then subtracted from the total market requirements, and whatever remains is prorated on the ability of all the wells to produce.

MR. PATTILLO: So that supposing the aggregate economic allowable of the wells in Alberta is

250,000 barrels and the nominations are for 270,000 barrels: the first 250,000 are spread out amongst the wells on their economic allowable and there are only 20,000 barrels for prorationing.

MR. MACKENZIE: That is correct.

MR. PATTILLO: And am I correct in thinking that the nominations are just slightly exceeding the aggregate of the economic allowables?

MR. MACKENZIE: That is my understanding.

MR. PATTILLO: So if you had an increase in market --

MR. FRAWLEY: I am told it is just a little bit less than the economic allowables.

MR. PATTILLO: So if you had an increase in market demand, that increase would not affect some producers as it would affect others because everybody is getting their economic allowable as a first charge.

MR. MACKENZIE: Generally correct, Mr. Pattillo. I may express it another way. If there was a company operating wells that could not produce much more than their economic allowance, then an incremental market increase would not accrue to them.

MR. PATTILLO: And that is what you mean in your brief when you say that any increase in the market is going to affect producers disproportionately?

MR. MACKENZIE: That is correct.

MR. PATTILLO: Now, let me put this question. If you have prorationing all over the oil world, then

all the producers throughout the world are operating on the same basis and the posted price in each area is, in fact, the real price. Am I correct in that?

MR. WHITE: Mr. Pattillo, I don't know whether we should try and differentiate. The posted price is a device to get people to know exactly what the price is. Would you proceed with the question?

MR. PATTILLO: The first one I want you to answer is the first question I have asked you. Am I right when I say that if you have producers all over the world using prorationing, then you have them all operating in the same manner and the posted price is, in fact, in each area the real price?

MR. WHITE: Provided supply and demand were in balance.

MR. PATTILLO: If you had a company that operated in a prorationed area in the United States and operated in a prorationed area into Canada and also operated in Venezuela where there was no prorationing, wouldn't the result be that the posted prices in the prorationed areas amounted to am umbrella over the operations of the company in Venezuela where there was no prorationing?

MR. WHITE: I think you are covering an awful lot of ground in that assumption. In fact, I don't believe it, because I think the testimony yesterday of Mr. Cogan indicated that, for example, the laid down price of Venezuelan crude on the coast was not

necessarily related to the U.S. Gulf price laid down at the same place; in fact, it is lower.

MR. PATTILLO: What I am saying is this: if you had two areas which are operating on prorationing, then those areas have, in fact, their posted prices as the real prices for their product. That is right, isn't it?

MR. COGAN: I believe that your competition is established more or less on the basis of the posted prices. In fact, I do believe it is true that you find variations from posted prices, you try and find variations in prices from posted prices. In the U.S., for example, you find periods when you have both premiums and discounts on posted prices. In some cases they are recognized posted prices, in some cases they are a variation from some posted prices. I think in general the oil sold in the areas without prorationing- a great bulk of it will go at the posted price. There again it may have been at a premium; I would say more generally a discount.

MR. PATTILLO: It seems self-obvious to me that if a company operates in three separate districts in the world and they are a member of a group in one district and they all prorate their oil for the purpose of sale, then the posted price is the real price in that area. Then if you have them operating in another district where the same thing is going on, the posted price again becomes the real price in that

area. But if they are over in the third district and they have their own oil and they don't need to pro-rate with anybody, can't they bring that in and use the prices that had been established in the prorationed area as an umbrella?

MR. WHITE: Mr. Pattillo, what you are saying is that there won't be any competition between the so-called posted price areas that are prorationed and this umbrella. I would expect that that would make the umbrella lower considerably.

MR. PATTILLO: It just has to come to the top of the umbrella to be competitive.

MR. WHITE: I don't believe that.

I think the results of the conference sound something like this: we are not quite sure what you are driving at. We do suspect from the way you phrased your question that you think the same people are posting crude oil prices in the three areas, if we can expand it in that way, which is certainly not the case. There are a large number of postings in the U.S. area and a lesser number, of course, but numerous postings, here, I think, and I don't think there is any place you can draw a line between the influence of one company in three areas. Is that part of your question?

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MR. PATTILLO: Well, Mr. White, let me put it to you like this. I would not want to confuse you as to what I had in mind.

Imperial Oil is operating in a pro ration area in Alberta; that is correct?

MR. WHITE: Yes.

MR. PATTILLO: Humble is operating in a pro ration area in Texas; that is correct?

MR. WHITE: That is correct.

MR. PATTILLO: Creole is operating in a non- pro rationing area in Venzuela?

MR. WHITE: A non-governmental pro rationing area in Venzuela.

MR. PATTILLO: All of the oil that Creole ships from Venzuela, if it sees fit to do so, can be its own oil?

MR. WHITE: I think that is correct.

MR. PATTILLO: But that does not apply to Imperial or Humble?

MR. WHITE: No.

MR. PATTILLO: All three companies are in the Standard New Jersey group?

MR. WHITE: Correct.

MR. PATTILLO: I am suggesting to you that if you look as one organization that the result is that Standard has the benefit of a pro ration, posted actual price in Alberta, a pro ration actual price in Texas and that it can ship its own oil from

Venzuela, as it gets those prices, and not be affected at all by pro rationing.

MR. WHITE: Mr. Pattillo, you are riding pretty roughshod over corporate individuality, aren't you? We have tried to make it clear that Imperial Oil has only one place to operate, and that is here, and based on that fact, to the same extent, I suppose, except that Humble has a little wider area, they operate the same way. I do not think it is fair to draw the conclusion that Standard Oil of New Jersey has that opportunity.

MR. PATTILLO: It may not be, Mr. White, but I am only trying to put this up and, in my capacity, as Commission counsel, trying to see the other side's point of view and, as I understand it, what I am putting up, in effect, is what Mr. Brown and his group have been saying, namely, that the price presently obtaining at Montreal is not necessarily an economic price.

Now, let us get back to that.

MR. WHITE: By "price presently obtaining", you mean the foreign crude price?

MR. PATTILLO: Yes.

MR. WHITE: I do not understand that statement that it is not an economic price. It is an economic price, I believe.

MR. PATTILLO: Let me develop it a little more and perhaps we can get the real meat of this

thing.

B-A has a refinery in the Montreal area and B-A is part of the Gulf organization. Now, I established yesterday that Gulf was in Venzuela. Is Gulf also in Texas?

MR. WHITE: I have no knowledge of where Gulf operates, by States. I assume they are but I do not know that.

MR. PATTILLO: But you do know they are in Alberta?

MR. WHITE: That is B-A.

MR. PATTILLO: Then the next refinery in Montreal is McColl-Frontenac, and am I correct in saying that McColl-Frontenac is really in the Texaco group?

MR. WHITE: I understand it is.

MR. PATTILLO: And does the Texaco group operate in Texas?

MR. WHITE: I am quite sure they do.

MR. PATTILLO: Do they operate in Venzuela?

MR. WHITE: Yes, they do.

MR. PATTILLO: And do they operate in Alberta?

MR. WHITE: I am sure they do.

MR. PATTILLO: And we certainly understand that the Shell group do, too, in Alberta and Venzuela. Now, what about Petrofina? Where

does it operate, besides Alberta?

MR. WHITE: Frankly, I would have to speculate a little on that. Petrofina has been a refiner and marketer in Europe. Since coming to this country it has entered both refining, marketing, producing in Canada, as you well know. Also, in the United States, I understand they have a refinery and I believe some producing properties, but that is pure hearsay, Mr. Pattillo.

MR. PATTILLO: In any event, we will be hearing from them so that we will be able to find out about that exactly.

What I understand Mr. Brown's argument is is this: all of the refineries in the Montreal area today are part of organizations which can ship into Montreal the organizations' own product and, accordingly, they are not concerned about posted prices at all, having regard to the cost to them, of the organization. Now, there is some merit in that argument, isn't there?

MR. WHITE: I think it is a purely theoretical argument, Mr. Pattillo. It costs Imperial exactly what we pay for it. Anybody else can go out and buy oil at the same price.

MR. PATTILLO: That is quite right; but when you read the annual report of Standard of New Jersey you see that they publish a consolidated report showing profits accruing to them from

Creole, from Imperial and from Humble.

MR. WHITE: Of course they do.

MR. P ATTILLO: And if you want to consolidate their costs and their profit, you would be looking at what it costs Standard organization, as such, to find and develop that oil in Venzuela and ship it and lay it down in the Montreal refinery.

MR. WHITE: Certainly, you can do that.

MR. PATTILLO: Right. And that would bear no relation to a posted price.

MR. WHITE: Well, now, what you are trying to put me in a position of saying is that that can be done and has been done all through the piece. It has not been done in the case of Imperial of Canada. No decision in relation to who buys what crude comes from the office of Standard Oil of New Jersey.

I think the illustrations you are drawing are interesting, Mr. Pattillo, but inapplicable.

MR. PATTILLO: Would you also agree with me that so far as you know, with respect to every refiner in Montreal, the same theoretical situation that I have developed could be possible?

MR. WHITE: I do not think you could do the same type of rationalization about Petrofina, because, as I mentioned, I don't think producing has been a strong part of their operation. I think you could say the same thing about the other

refining companies there, perhaps.

MR. PATTILLO: Fine. Now, as you know, Mr. Brown has proposed several possible solutions for getting Canadian crude to Montreal. One is that he suggests there should be some consideration given to a quota, on a voluntary basis.

Would Imperial Oil, as one of the Montreal refiners, be willing to consider limiting of their foreign importation at Montreal by a voluntary quota?

MR. WHITE: To be specific on that, Mr.
2 Pattillo, when you say willing to limit our importations, I think you have to look at the whole piece.

We do not think that quotas, duties, embargoes are desirable, as they lead to the ultimate control of the industry. I can answer that question piecemeal, if you wish, but that is the position we take.

MR. PATTILLO: You feel you could not have any one of those, as it would be a form of control of government coming into being, which you would not want?

MR. WHITE: We would be very fearful of such being the case.

MR. PATTILLO: In your opinion, supposing the Canadian Government put a tariff on crude coming into the country, as has the United States, would that in any way affect, in your opinion, importation of foreign crude into Montreal?

MR. WHITE: It could, very well. It depends on the size of the tariff, naturally, and I assume, at the same time, you are willing to put duties on refined products, so the whole thing would be a duty protection, in addition to present duties on products.

MR. PATTILLO: If I might deal, for a moment, with the size of duty which would have to go on to be effective: I had in mind yesterday, when we were discussing your brief about the Alberta crude and the incentive that was necessary, that based on the rate of return you show of between 7 per cent and 12 per cent, you consider there was very little room for down movement of price of Alberta crude.

MR. WHITE: Yes, Mr. Pattillo, that is exactly how we feel.

MR. PATTILLO: And that if there was any down movement, any appreciable down movement, the incentive would be taken away.

MR. WHITE: The incentive would be reduced.

MR. PATTILLO: Have you given any thought to what freedom of movement there might be in down movement; how much downward adjustment, in cents per barrel, might be feasible without destroying incentive?

MR. WHITE: I haven't any idea how to evaluate that quality, Mr. Pattillo. It varies

between producers. Certainly it would vary as to the amount of exploration that each producer wanted to do. I don't know how to put a figure on it.

MR. PATTILLO: Well, if I might use that naughty word "mark-up" that you don't like, have you any idea what percentage of mark-up your experts consider is essential to maintain incentive?

MR. WHITE: We just do not have any determination of mark-up; any number I gave you would not be right. I don't know.

MR. PATTILLO: If we can establish that you do not consider there is very much room for downward movement and if you will accept a minimum differential between the laid-down price of Venezuela in Montreal and the probable laid-down price of Canadian crude in Montreal, would you agree that what would have to be done is keep the Alberta price the same as it is and put on a tariff of 25 cents a barrel, if you wanted to shut out Venezuelan oil?

MR. WHITE: Well, in discussing duties, the amount of duty is a trial and error proposition. I don't know if 25 cents would do it or not, and I do feel it would be desirable to keep Alberta crude prices no lower than they are at present, so we would almost get to the same place, except that we don't know how big the fence is.

MR. PATTILLO: Well, if you have not got

very much room for movement in the price of crude for Alberta, let us examine for a moment this pipe line situation, because this is the other possible place where there might be some savings, is that not so?

MR. WHITE: Either the producer, the pipe-liner, the refiner or the public.

MR. PATTILLO: Right. As I understand it, the oil companies call a pipe line a facility of the oil company.

MR. WHITE: That is, basically, what it is.

MR. PATTILLO: Well, if it is a facility, why do you set up tariffs and shareholders in pipe line companies which yield profits to you over and above what you need to carry your funded debt?

MR. WHITE: That is a fairly new development. Let us touch on the sale of securities to the public, for a moment.

Going back to 1948, when we looked at Interprovincial, there has always been some sort of political storm going on all over the place, you know, and there is a very noted gentleman now on the Bench, you know, who used to criticize our company for not letting people in on acreage.

MR. PATTILLO: That gentleman is in the Province of Alberta that you are talking about?

MR. WHITE: At the present time. So when Interprovincial came along, we felt there

should be some means of getting the public into the oil business, apart from the gambling side of it, the drilling, and you know the results.

Now, there is obviously some conflict in interest between the low cost requirement of the oil company and the high return which the public likes to think they have, and the only way that has been possible is through the use of that debt capital leverage.

MR. PATTILLO: I am not saying this is a bad thing at all, but it is a fact, isn't it, that as the thing is presently set up, the producer, being an integrated company, seeks to make a profit in his production operation, seeks to make a profit in the transportation of oil to the market or refinery and seeks to make a profit at the refinery, at all stages?

MR. WHITE: I think that is perfectly natural, Mr. Pattillo. He has money invested in all those stages.

MR. PATTILLO: I quite agree with that, but what I am fussing about is, if the pipe line is a profitable venture on its own by reason of the tariffs set up, is it proper to refer to it as a facility?

MR. WHITE: Well, I think it is, just the same as a tanker is a facility. The tanker also is profitable, when there are not too many

tankers.

MR. PATTILLO: I would like to put this question to you: If Canadian crude went into the Montreal market and started on this minimum throughput which was referred to of 150,000 barrels per day, what proportion of that would be Imperial Oil's crude?

MR. WHITE: That would be, of course, three years down the road or thereabouts, and I am not complaining about that. We would have to guess our proportion of the so-called production, 25 per cent.

MR. PATTILLO: Can you tell us, from your knowledge of the producing situation out here, what proportion would be B-A's?

MR. WHITE: I prefer that they did that guessing.

MR. PATTILLO: Well, could you help me in this or do I have to wait until I have each company before us? Could you tell me off these Montreal refineries who had operations in Alberta -- supposing we went in there, how much of what percentage would be their own oil?

MR. WHITE: Would you just let us look up the figures here? The significant difficulty in answering your question, any figures we have here relate to the present situation two years down the road and will change materially. For example, our own percentage of production has changed quite materially downward in the last two years. We will try and make some kind of rough guess. Could you ask your questions around that, for the time being?

MR. PATTILLO: All right, Mr. White, from your experience in the oil business, would you agree with me, having regard to the finding and developing cost of Venezuelan oil vis-a-vis Alberta, as long as you have pro rationing in Alberta, you cannot put Canadian crude into Montreal that can hope to compete with Venezuelan crude if the Venezuelan people want to retain the market.

MR. WHITE: I agree completely: however, my associate here says that is not entirely due to pro rationing.

MR. PATTILLO: That may not be but, certainly, pro rationing is one of the factors preventing the

Alberta crude from being competitive.

MR. WHITE: I would not argue with that.

MR. PATTILLO: From your experience in the oil business, do you know of any producer in Alberta, other than Imperial, that has made effort to sell oil?

MR. WHITE: Yes, I do know of other people who have made efforts to sell oil. All you have to do is look at the new refineries that have grown up in the western area here and all the companies who market here that have put in additional capacity and the new refineries that are going up in the Great Lakes areas and the additions to refineries.

Now, if you ask me if I know of any company who has taken satchel in hand and gone calling on the people across the line, I do not know, but the industry has contributed substantial new outlet for new oil and for capital investment in refineries.

MR. PATTILLO: Mr. Chairman, may we have a few minutes' break because I have a list of other questions that have been prepared by the staff that I have not considered.

THE CHAIRMAN: Gentlemen, we will have a ten-minute break.

---A short recess.

THE CHAIRMAN: Gentlemen, the Commission will now resume its hearing. Mr. Pattillo, before you go on there is one small question I would like

to ask Mr. Mackenzie apropos of his economic allowable: what happened and what are the procedures when the total of the nominations of the month are less than the economic allowables? We did not cover that.

MR. MACKENZIE: I do not know as I can, sir. This situation has not arisen to any, shall we say, large extent yet in the history of the Alberta Government Conservation Board's pro rationing. I believe Mr. Frawley made a remark there was a very slight disparity at the present time. As yet, there has not been any large disparity. The policy that will develop will have to be determined in the future by those conditions.

THE CHAIRMAN: The situation, as yet, has not called for the determination of any policy?

MR. MACKENZIE: No, sir.

THE CHAIRMAN: Mr. Pattillo, I believe that Mr. White would like to make some further remarks with respect to posted prices before we change the subject of the questioning by counsel.

MR. WHITE: I am not sure I am competent to do this properly but there is a feeling amongst some of my associates that we have not completely explained Mr. Pattillo's question with regard to the relationship of posted prices inumbrella countries and foreign countries. Actually, in Texas there are a myriad of posters. Some are small refineries; some buy so little they are not listed in the trade journals as

being important. I would like to read into the record the larger ones in Texas, Oklahoma, Louisana and Montana.

In Texas we have Cities Service, Humble, Phillips, Texaco, Sinclair, Gulf, Indiana, Sohio, Magnolia, Shell, Sun, Pure, Atlantic, Continental and you have a lot of small refineries down there in the eastern States that post in addition to the names I have given you for which I have no information in the journal.

In Oklahoma we have Anderson, Pritchard; Skelley; D-X Sunray; Kerr-McGee; Louisiana; Esso; Arkansas Fuel; Montana's Carter; Illinois, Ashland; Ohio. In Michigan we have Bay Refineries and Leonard.

When it comes to a question of posted prices, the posted price is only good provided the industry thinks it is good. Prices posted may be maintained for a while. You may get exploration in areas not too far away unpro rated. If to get a market, the new crude has to be sold at a discount, that is what will happen and, eventually, there may develop pressures that show sales being made at this discount to an extent that the posted price itself is undermined and, realistically, is re-established at a lower level and the buyers, if you wish, decide what that level will be. The same remarks apply when shortages appear. You will find premiums bid for crude and that was apparent after

the Second World War. Eventually, the posted price is undermined again and is moved up to a higher level. The thing never dies; it is always with you and it is constantly changing.

I think that covers the point I want to make, Mr. Chairman.

THE CHAIRMAN: Thank you, Mr. White.

MR. PATTILLO: Mr. White, have you been able to obtain approximate figures at to the amount of Canadian crude that the Montreal refiners would be taking into Montreal of their own in the assumption that the Montreal market was served by Canadian crude?

MR. WHITE: We would like to have it carefully understood that these figures that Mr.Mackenzie will read are as of February, 1958, and our best guess as to the proportion of the 150,000 or 250,000 barrels per day that refiners might get. This will assume, of course, that it all comes from Alberta but we wish to emphasize that we do not know what the proportions would be two years from now or three years from now when any pipeline might be completed.

MR. MACKENZIE: Imperial 30%, 45,000 barrels; British American 10%, 15,000 barrels; McColl-Frontenac 25%, 37,500 barrels, Fina and Shell together 5%, 7,500 barrels; and that will total to 105,000 barrels. Out of the 150,000 barrels it is approximately 17%.

MR. PATTILLO: So that the independents and the other integrated oil companies that don't have refineries in Montreal would only benefit to the extent of 17% of the Montreal market if Canadian crude went there and the present figures retained.

MR. WHITE: It is 30%.

MR. PATTILLO: They would benefit to the

extent of a third, 50,000 barrels altogether.

MR. WHITE: 45,000 barrels, Mr. Pattillo.

MR. PATTILLO: Now, in your assessment - let me ask you this question. Has Imperial Oil over the years given study to the question of the feasibility of taking Canadian oil to the Montreal market?

MR. WHITE: Yes, we have -- well, we have been looking at that for a number of years.

MR. PATTILLO: Now, even omitting prorationing, would it in your opinion be economically feasible to move Canadian crude from Alberta to Montreal and compete with Venezuelan crude?

MR. WHITE: I don't believe so, Mr.Pattillo.

MR. PATTILLO: So that the loss of the 50,000 barrels to the other integrated companies and independents that have no refineries in the Montreal area is not a factor in your view in saying that this project is not feasible.

MR. WHITE: No, Mr. Pattillo, we go one step further. If we had any feeling that it was possible and economical to move to Montreal, I am quite sure there would be no disagreement between Mr. Brown and ourselves; in fact, we would have been chasing it before this.

MR. PATTILLO: Now, I asked you for some information yesterday, which you said wasn't then available and which you would obtain for me, regarding transportation costs. Would you please give me

that now?

MR. WHITE: I will ask Mr. Twaits to give you that.

MR. TWAITS: Mr. Pattillo, your first question related to transporting oil from Venezuela to Halifax or Portland. May I say, first of all, that the cost of transporting oil to both those ports is roughly the same, with minor differences.

MR. PATTILLO: I always thought that too, coming from Halifax.

MR. TWAITS: At any rate, our view of transportation costs today is that it is roughly USMC minus 45 that is the proper rate, and that costs 22¢ per barrel. Does that answer your question?

MR. PATTILLO: Yes.

MR. TWAITS: You also asked us a question yesterday as to the use of lake tankers and the possible transportation of crude from Lake Superior areas or from Sarnia and Toronto to Montreal. I think you will appreciate that those lake tankers are employed and designed for the distribution of the refined products at marine terminals on the Great Lakes. They have about 20,000 barrels capacity and they are designed specifically for refined products.

In addition, the Lachine Canal is limited to 14 foot draught as against 20 foot draught. It is obvious that these vessels would have to be replaced if put into crude service by some other form

of transport, presumably by rail, which is expensive. Under the circumstances, the use of the small lake tanker seems to us to be impractical. As to that movement, we look at it to be done by larger-sized vessels, as we have consistently considered a T-2 type vessel operating from either Superior or Toronto, and after the seaway, of course, is opened, a T-2 type vessel and the Leduc class vessel. You know what I mean by that; they were designed to carry crude from Superior to Sarnia before the pipeline was extended. There is only one of those vessels in existence, and I don't think it is going to be in existence for very long.

So the most realistic is the T-2 type vessel, and we estimate, with the full seaway in operation that with that vessel we could lay Redwater crude into Montreal at 50¢ a barrel disadvantage. No matter how you look at this, whether it is Superior or Toronto, measuring Redwater as against Guanipa crude, there is a 50¢, 55¢ barrel disadvantage.

MR. PATTILLO: You are using the tankers for part of the haul.

MR. TWAITS: That would be using tankers either ex-Superior or ex-Toronto.

Now, you also specifically asked about Sarnia, but obviously they are going to work out about the same.

MR. PATTILLO: Supposing it was feasible

to take Alberta oil through the Trans Mountain pipeline to Vancouver and that you shipped it from Vancouver through the Panama Canal to Portland, have you any figures of that cost?

MR. WHITE: Yes, we have some figures.

MR. COGAN: Yes. We estimate on that basis that you would arrive at -- depending on, of course, the rate which was charged -- but our conclusion is that your cost would be in turn about 50¢ a barrel above -- a little more than that, about 60¢ a barrel higher than our current laid down cost. That is using vessels at USMC minus 60, and on that basis we estimate that the net overall would be slightly in excess of 60¢ a barrel.

MR. TWAITS: Mr. Pattillo, before you proceed, can I clarify one thing? The cost we have estimated,using a T-2 type vessel, assumes that you can get that ship for the open seas navigation at USMC minus 30, and that, we believe, is an extremely low cost, because you would have to ship crews and a lot of other things. That is the most optimistic cost we can assume with a T-2 type vessel on the lakes.

MR. PATTILLO: Now, Mr. Brown is his project proposes to move oil at a price of 2½¢ per barrel 100 miles. From your experience in pipeline transportation, do you think that it is possible to move oil through a pipeline at that price

and make a profit?

MR. WHITE: Well, it is pretty complicated to be completely categorical. We would say that is too low. I would say that if you want a figure, 3¢ would be a minimum.

MR. PATTILLO: Supposing you went to Montreal, with your refinery there and the refineries of the other companies, would you or any of the other refiners be faced with any substantial capital cost to convert your refineries to Canadian crude?

MR. WHITE: I don't think so, Mr. Pattillo. There is an important addition that should be made to that statement. Where refineries -- I am talking about the others now -- have put in extra treating facilities and extra investment to cope with sour crudes, which they have done, I suppose there is an economic penalty which would be involved.

MR. PATTILLO: Now, in your brief on page 6 you present tables showing distribution of the world's production and reserves, and this table indicates that Canada has 1% of the reserves, 3% of the production. What is the percentage of the world's consumption that applies to Canada?

MR. WHITE: 4 percent.

MR. PATTILLO: Mr. White, I asked this question of Shell, and I intend to ask it of all

the Montreal refiners as they come to the stand. If you were requested by any person to sign a throughput agreement for Canadian oil to Montreal, would you do so voluntarily?

MR. WHITE: I will qualify my statement this way: why should we take the risk? Therefore I would judge our signing would be quite involuntary.

MR. PATTILLO: Now, some question came up as to what Imperial's commitments were to bondholders of Interprovincial as to the shipment by Imperial of its Canadian crude over Interprovincial's lines. Now, tell us just exactly what that situation is.

MR. TWAITS: While we are getting this data, Mr. Hamilton is a director of Interprovincial pipeline, and he is going to answer the question.

MR. HAMILTON: Imperial agreed to provide an average daily throughput of 59,673,000 barrel miles, in any calendar year.

MR. PATTILLO: And the life of the bonds?

MR. HAMILTON: Series A and Series B bonds.

MR. PATTILLO: How many years have they in future life -- approximately 10 years?

MR. HAMILTON: I think it is longer than that. If you would just give me a moment. 1970.

MR. PATTILLO: Now, you made a statement in your brief which I interpreted as meaning that you considered that it was only good financial practice to use equity moneys for the purpose of exploring for oil and that was one of the reasons why you had to have that naughty word "mark-up". Is that right?

MR. WHITE: The exploration money is gambling money and, therefore, it should be equity money.

MR. PATTILLO: What is the situation, as you see it, over the next five years, for the smaller independent companies that are operating in Alberta? Are they in danger of not being able to continue their operations, to survive?

MR. WHITE: I don't believe so, Mr. Pattillo. If you will notice, over the next five years, the table of outlets we have given in what we think is a reasonable intermediate case and also the graph that went with it, we estimate that the percent production, if you like, will be in the 50 to 70% range, which is as high as it has historically been.

MR. PATTILLO: Do you think it is desirable, in the interests of the national economy, to have these smaller independents engaged in the oil business?

MR. WHITE: I think it is most desirable, Mr. Pattillo. The oil business needs all the friends it can get, and participation is a good way to have them.

MR. PATTILLO: I asked the Shell Oil Company to endeavour to obtain from its affiliated companies the particulars regarding finding and lifting costs of oil in Venezuela. I wonder if you would make an effort to obtain from your affiliated companies of Standard that information, made up in the same form as you have made it up in your brief, regarding Alberta crude?

We would like to know the picture and, if you prefer, it will be quite all right for you to file it with the Chairman. We would like to know the picture in Venezuela and in Texas.

MR. WHITE: Mr. Pattillo, it is just a little different in our case. Certainly we will try to give you as full information as we can develop along the lines you have requested.

MR. PATTILLO: Mr. White, do you know, when the decision was made to build the Trans Mountain Pipe Line, whether any United States government authorities of any sort had made any suggestions that such a line should be built or urged the building of the line?

MR. WHITE: I don't know how to answer that, because I really don't know. The only contributory piece of information might be that the line was given every support by the Petroleum Administration at that time and by the Armed Services, who felt that, defensively, it was of some importance; that is, of

course, in relation to getting priorities for the material.

MR. PATTILLO: They assisted in having priority for the necessary material?

MR. WHITE: That is my understanding.

MR. PATTILLO: Has your company made a survey of the market in Ontario and Quebec in an effort to evaluate what impact natural gas coming into that market could have on the market for heating oil?

MR. WHITE: We have.

MR. PATTILLO: Would you be willing to file that with the Commission?

MR. WHITE: It is here in Calgary but it is upstairs. We will see that you have a copy.

MR. PATTILLO: Thank you. In your brief, in considering what would happen if Canadian oil went to Montreal, you forecast, at page 25, that one of the results would be a loss of the major portion of the Puget Sound market.

Have you anything to tell us to support that conclusion?

MR. WHITE: Yes, I have. We have made reference to this 11,500-barrel exchange but, actually, it is not an exchange. We are buying 11,500 barrels from Socony and they are buying 11,500 barrels of Canadian crude, of which we own about 2,500, so we are a little on the short end

of the stick on that one. But, if Canadian crude ran into Montreal, we would certainly no longer have that 11,500-barrel market, and this is just experience or feel or whatever you want to call it, but I suspect that the displacing of 200,000 to 300,000 barrels of foreign crude would result in the effect we have attempted to show there.

MR. PATTILLO: Mr. Mackenzie, I think you are probably the person to whom I should address this question. On page 27 of your brief you say that a study made in February indicated that 95% of the increase in volume of production has accrued to 28 companies. I was wondering whether you would be prepared to file a copy of that study with the Commission.

MR. WHITE: If it is agreeable, we would like to file a copy of that study with the Chairman. It contains some confidential information.

THE CHAIRMAN: That is perfectly all right, Mr. White. The Commission appreciates that some of the information which it seeks in order to get at the facts may be of a highly confidential nature as within the industry itself and, if you file it with the Chairman, that confidence will be respected.

MR. PATTILLO: On page 32 of your brief, you speak about a projection of cash flow. I wonder if you would file that, either with the Commission or with the Chairman.

MR. WHITE: We will file that with the Chairman, too, if we may.

MR. PATTILLO: I would like to examine, for a few minutes, if I can -- and this is the last subject matter with which I propose to deal -- your views on an Energy Board.

Do you think that it is desirable that there be some Department of Government or some Board which has peculiar knowledge of the oil and gas business?

MR. WHITE: I think that would be very helpful, Mr. Pattillo.

MR. PATTILLO: Do you think that all of the matters which Parliament, in its wisdom, might consider it had to deal with in relation to oil and gas, should be funnelled into that one central source rather than be divided around, for example, between a Department or a Board of Transport or so on?

MR. WHITE: I think we would prefer to see the responsibility divided.

MR. PATTILLO: You would prefer to have it divided?

MR. WHITE: Yes.

MR. PATTILLO: Would you mind explaining why you have that preference?

MR. WHITE: Yes. I think it is perfectly obvious that we would prefer to see no body formed,

that is, in effect, a complete controlling body over the energy industries.

Now, we have given you the arguments on the different types of energy. Certainly it is not entirely clear that transportation is part of that energy interest.

Do you follow the trend of our reasoning, or shall I go on?

MR. PATTILLO: Perhaps, if you would go on a little further.

MR. WHITE: Perhaps I should not have said that. That is, basically, the feeling you have. I think you can concentrate too much control over an industry in one body and we would not like to see that.

MR. PATTILLO: Well, would you agree that it is desirable that some body have control, if they see fit to exercise it, over the transportation costs of oil through pipelines?

MR. WHITE: I think that is a perfectly natural safeguard.

MR. PATTILLO: Do you also agree that it is desirable, in the case of export of gas, that there be some body which would inquire into whether or not the price to be obtained for the export of gas was fair and reasonable, in the interests of the country?

MR. WHITE: No, I'm afraid I leave you there.

MR. PATTILLO: Do you think that a natural resource of this country, belonging to the people, should be permitted to go from the country at less than cost, if necessary?

MR. WHITE: That is a very good question. Of course I don't.

MR. PATTILLO: But you do not think, on the other hand, there should be any public body inquiring into whether or not the price is or is not below cost?

MR. WHITE: I would say no, Mr. Pattillo.

Mr. Pattillo, may I add one more thought? I believe the industry has some responsibility for showing why it is so mulish, at times, but the thought is that, with the possible exception of price, there is such a mess -- no, maze; cross off that word.

MR. PATTILLO: Perhaps you were right the first time.

MR. WHITE: We will let the reader decide. There is such a maze of controls and regulations that the prospect of an overriding authority to control prices and everything just scares everyone to death.

You wanted a full opinion, and you have got it.

MR. PATTILLO: Well, it seems to me that when it comes to pro rationing or things like that,

you like that kind of regulation; but when it comes to setting up an over-all body that would be of some real assistance, that is the sort of thing you don't want.

MR. WHITE: That is a loaded question, but there are anomalies.

MR. PATTILLO: Regulation if necessary, but not necessarily regulation?

THE CHAIRMAN: Mr. Frawley, were you proposing to ask some questions?

MR. FRAWLEY: Yes, Mr. Chairman.

THE CHAIRMAN: Are you prepared to go on now?

MR. FRAWLEY: Yes, I could start now, sir.

THE CHAIRMAN: Very well.

MR. FRAWLEY: Mr. White, there are ten directors of Imperial Oil and they are all Canadians?

MR. WHITE: We have one outsider on my left here; Mr.Cogan. He is an American citizen.

MR. FRAWLEY:But he works for Imperial Oil.

MR. WHITE: Yes.

MR. FRAWLEY: And lives in Toronto.

MR. WHITE: All directors are employed by Imperial Oil.

MR. FRAWLEY: What I mean, of course, is that the Jersey Company has not a representative on your Board.

MR. WHITE: No.

MR. FRAWLEY: They own you 70% but they have no representative on your Board.

MR. FRAWLEY: They have a 70% stock interest in our company, yes, and they have no representative on our Board.

MR. FRAWLEY: Do you know if the same thing applies in the case of Creole?

MR. WHITE: What do you mean by the same thing?

MR. FRAWLEY: I am talking about whether or not Jersey has a representative that could be recognized as such on the Creole Board?

MR. WHITE: No, I would not think so.

MR. FRAWLEY: I notice they have three New York directors, Mr. Burr, Mr. Metzger, and Mr. Stines. They have nothing to do with the Jersey Company directorate.

MR. WHITE: No, it is a matter of convenience. Creole maintains what amounts to a sales office in New York and those are the directors resident in the City. They are not employed by Jersey in any direct way.

MR. FRAWLEY: They are not in any sense representatives of the Jersey Company on the Creole Board.

MR. WHITE: No, they are not.

MR. FRAWLEY: And that would also apply to the ten Caracas directors of Creole?

MR. WHITE: They are full employees of Creole, not Jersey directors, in the sense that I think you are using that term.

MR. FRAWLEY: Now, Mr. White, your company feels that this kind of proposal that has been put up by the Independents frequently referred to as the Home proposal, but the fact is it is put up by a

group of Independents for whom Home appears to be the spokesman and that is: that this proposal would not be good for the overall economy of Canada. Is that what you say?

MR. WHITE: Yes.

MR. FRAWLEY: You say that the quotas would lead to the control of the industry?

MR. WHITE: We use the terms "quotas and other things" that would go with guaranteeing of a market. I do not think we have limited it to quotas but it is our opinion that will lead to a difficult situation.

MR. FRAWLEY: I made a note this morning when you were answering Mr. Pattillo, you were talking about quotas, and you did say you felt that would lead to the control of the industry.

MR. WHITE: Quotas and controls, yes.

MR. FRAWLEY: What other control would there be? All that is needed is a quota which prescribes and defines the number of barrels of Venezuelan crude that could come in giving the balance to the Canadian producer.

MR. WHITE: I think you will find in our brief under the problems of the industry and the refiner that a pipeline could not be initiated individually as a commercial venture even with quotas. The reasons are all given in there, Mr. Frawley.

MR. FRAWLEY: I put it to you that the

quota itself would not necessarily lead to the control of the industry and I venture to say to you you do not really put that forward as your opinion.

MR. WHITE: Mr. Frawley, you are taking a piece out of the pie and asking me to swallow the whole thing.

Quota is only a part of the various events that would follow a pipeline to Montreal. I think I have indicated to you the pipeline could not be financed commercially which would, presumably, lead to government guarantee or ownership. It is from this I fear the growth of control.

MR. FRAWLEY: Why is it that in the textile industry they would like to see quotas on textiles coming into the country and because of those quotas they do not feel that they are going to lose control of the industry?

MR. WHITE: The Canadian textile industry does not have to make a large investment to build a pipeline.

MR. FRAWLEY: In any event, you say you do not like quotas just because they are quotas.

MR. WHITE: Yes.

MR. FRAWLEY: You do not like restrictions. I do not know what you are in Toronto but out here in Calgary you are just the world's best free trader,

are you not, Mr. White?

MR. WHITE: I have quite a bit of competition.

MR. FRAWLEY: There is a whole lot of protection in the Canadian economy now, is there not?

MR. WHITE: There certainly is.

MR. FRAWLEY: If the cold-blooded rules of economics prevailed, there are a lot of industries in the Toronto-Hamilton area that, perhaps, would not be there at all; is that not so?

MR. WHITE: Mr. Frawley, please do not push me into such a corner that we cannot defend ourselves at all because you know there is a balance to such things.

MR. FRAWLEY: I am going to be pretty good to get you into a corner at all and even better to keep you there.

I want you to tell me whether the ordinary laws of supply and demand and the basic economic consideration has been interfered with very materially in Canada, supposedly, for the overall good of the Canadian economy. That is so, is it not?

MR. WHITE: I think there is a very great degree of freedom here, Mr. Frawley.

MR. FRAWLEY: There is a lot of restriction, too, is there not?

MR. WHITE: There is some restriction; you cannot ride around the streets just as you like.

MR. FRAWLEY: But you cannot divide it up and say precisely what the difference is in percentages between the degree of freedom and restriction; that would be difficult.

MR. WHITE: Very difficult.

MR. FRAWLEY: Both the oil industry

and your own company has to pay pretty stiff prices sometimes for the privilege of being able to buy in Canada as regards what they might pay if they could buy from the United States.

MR. WHITE: We pay a little more money and sell a little more gasoline.

MR. FRAWLEY: Mr. Twaits was telling us yesterday he thought subvention would be a terrible thing and would annoy the taxpayer terribly. You know there is one pretty well known form of subvention operating in Canada today.

MR. WHITE: The baby bonus?

MR. FRAWLEY: No. I do not know -- it might be that down in the Cape Breton Mines; maybe it comes to that. I am talking about the subvention on coal.

MR. WHITE: Yes, I have heard of that.

MR. FRAWLEY: We take the coal industry, and for the good of the whole Canadian economy, we force, I use the word advisedly, we force Nova Scotia coal into the Toronto market with the subvention.

MR. WHITE: I understand so.

MR. FRAWLEY: That is of recent date; that is, perhaps, the last manifestation of this subvention policy. We used to stop at Montreal but, now, we say that Nova Scotia should have a Toronto market and the aid is just enough to back out the American coal. You know that?

MR. WHITE: I do not know that; you are telling me.

MR. FRAWLEY: The Order-in-Council was passed in the last two or three months. That has not been any great shock; the Canadian taxpayer has not gasped about that.

MR. WHITE: I do not know that the Canadian taxpayer is very familiar with that. I do not know that he would object. The reasons invoked are usually very good reasons.

MR. FRAWLEY: We will not argue too much about that. Mr. White, you have shown in your calculations, you are bringing in Guanipa crude. Would you mind telling me how much Guanipa you are bringing in now?

MR. WHITE: We are scheduling in Halifax --.

MR. FRAWLEY: I am interested in Montreal.

MR. WHITE: 55,200 odd barrels scheduled for Montreal during 1958.

MR. FRAWLEY: 55,200 barrels daily in 1958 in Montreal. Is that all of your total refinery run?

MR. WHITE: Oh, no.

MR. FRAWLEY: What else?

MR. WHITE: We are also bringing in 11,282 of Guanipa crude that we are buying from certain producers. We are also bringing in two specialty crudes, Quiriquiri, 411 barrels per day and 4,858 special low cold test crude for a total of 71,797.

MR. FRAWLEY: When did you stop bringing in Officino crude into Montreal or Halifax?

MR. WHITE: Several years; the basic reason was Guanipa fitted our requirements better at a lower price.

MR. FRAWLEY: I am wondering about this: I am reading from the Facts and Figures about Oil in Canada, 1958. I received it with the compliments of Wood, Gundy Company Limited but it has on it, Imperial Oil Limited, printed in Canada. You have one there and if you look at page 9 you will find you are comparing Venezuelan Officino with Redwater and Pembina and Illinois and California. But the Venezuelan that you chose is Officino which has a posted price of $3.05.

MR. WHITE: I think we chose that because it is a better-known, older Venezuelan crude but it does not matter. The gravity is shown as 36 and the price happened to be the Officino price.

MR. FRAWLEY: Notwithstanding this little book, you are not bringing in Officino and you haven't for about five years.

MR. WHITE: This Officino crude -- you could call it Officino crude -- sells at a different price and it is sour crude. There are many different grades produced in the Officino area.

MR. FRAWLEY: Have you ever given any thought to blending Guanipa and Redwater for use in Montreal?

MR. WHITE: No.

MR. FRAWLEY: Tell me, what are you running in Ioco? It is Alberta crude.

MR. WHITE: Yes.

MR. FRAWLEY: Have you got the figures there?

MR. WHITE: Yes. This is merely a program I can give you. Redwater, 17,529; Sturgeon Lake, 11,641; Light Mix, 1,614; total 30,784. Now, it may not run to that; that is the program, it says.

MR. FRAWLEY: Do you have to supplement that market with imports?

MR. WHITE: Yes, there are some imports.

MR. FRAWLEY: Of what?

MR. WHITE: Products entirely -- I will have to look that up. Just a moment, please. There may be a small amount of middle distillates, but the

bulk of the importation is Ioco to supplement the heavy crude.

MR. FRAWLEY: So by supplementing your Alberta crude with heavy fuels you are able to meet your market on the west coast.

MR. WHITE: Yes.

MR. FRAWLEY: Now, I want to call your attention, Mr. White, to Table B-8 in the submission of Home Oil, Table B-8 of the Levy report and which is part of the independent submission. It is called "Canadian Refinery Yields and Operating Rates, 1956," and if you will compare British Columbia with Quebec and the Maritimes you will find something like this: motor gasoline, 32.2; Quebec and the Maritimes, 34.3. Those are percentages, I take it.

MR. WHITE: Yes, sir.

MR. FRAWLEY: Middle distillates, 31.6; Quebec and the Maritimes, 30.6. Heavy fuel oil, 22.3; Quebec and the Maritimes, 24.9. You will agree with me that there is a very substantial comparison.

MR. WHITE: Yes, a very substantial difference.

MR. FRAWLEY: I put it to you that on the basis of that table -- and you will correct me if I am not drawing the right inference -- you could take Alberta crudes into the Montreal refinery, supplemented, as you are now doing, with heavy fuels, and satisfy the market in Montreal.

MR. WHITE: Oh, certainly, Mr. Frawley; there has never been any question about that.

MR. FRAWLEY: Now, then, I take it that you could bring in crude from Creole, from Venezuela, of a different API gravity than you are now bringing and blend that with Redwater and have the same price situation, cost situation at Montreal as you now have. Now, I will just develop that with you for a moment. Have you examined it from that point of view?

MR. WHITE: No, it is not a sensible suggestion. I mean that, Mr. Frawley, because you would have to get the Redwater through to Montreal in the first place. I don't think there would be any question of running Canadian crude from a physical standpoint, but I don't quite know what you would do to balance the quality to get the same price.

MR. FRAWLEY: You could put Redwater crude into Montreal at 3.19.

MR. WHITE: I don't agree with you.

MR. FRAWLEY: If you would just accept that from me for the moment, because we can't pursue anything unless we have some basic assumptions. If you will accept it from me that you could put Redwater crude in at 3.19, using the Home Oil figure of 50.8 -- anyway, take it at 3.19. I put it to you that you could get from your Venezuela

affiliate 25 degress API crude, which is spelled T-I-G-R-E.

MR. WHITE: It is El Tigre.

MR. FRAWLEY: You could bring in Tigre crude, you could buy it at 2.51, and with the same kind of calculation made for Guanipa, the engineers of the Conservation Board have arrived at a figure of 2.807¢ in Canadian funds laid down in Montreal. It is a little better than 2.80, more like 2.81, and if you had a composite laid down price of Tigre and Redwater using 35% Tigre (on 25 degrees gravity) with 65% Redwater (35%) you could have a laid down cost at Montreal of $3.06.

MR. WHITE: That is good mathematical exercise.

MR. FRAWLEY: Would you tell me why that isn't a feasible proposition?

MR. WHITE: Well, basically, the whole theory of getting oil to Montreal is to move it in large volume to get advantage of the lowest cost of laid down oil there is. You cannot move 100,000 barrels to Montreal and build a pipeline to do it. Consequently, there is no basis for taking a part substitution of Redwater crude at Montreal and adding to it a balancing gravity crude from Venezuela, in economics.

MR. FRAWLEY: Mr. White, I would like to look up something about that and ask you later.

I pass now to something else. You look to the Toronto-Hamilton or Ontario market as the salvation of this shut-back crude situation in Alberta in large part.

MR. WHITE: I think there are potentialities there which will aid materially.

MR. FRAWLEY: What you propose is that the Ontario refineries should expand.

MR. WHITE: Yes. They are expanding.

MR. FRAWLEY: You say that Shell talks of building one in Bronte, although they say they haven't reached a decision that they will build it at all. That is one of the things you have in mind when you speak of an additional market.

MR. WHITE: We had not included the Shell refinery in our estimates of the outlet.

MR. FRAWLEY: When you said it would be increased from 75,000 to 80,000 barrels daily, you were eliminating Shell.

MR. WHITE: Well, 75,000 to 80,000 covers the 1960 period. Mr. Cogan corrects me; he says it is five years we have counted on the Shell volume.

MR. FRAWLEY: And Cities Service?

MR. WHITE: They will be running next year. Incidentally, I did some disservice in the quick questioning of Mr. Pattillo yesterday and it would be worthwhile mentioning that some are increasing their intake of Canadian crude at the beginning of

June. The Sun people have made some move to utilize more Canadian.

MR. FRAWLEY: As I see it, if that is the case, it is impossible to put our crude into Montreal because the Venezuelan crude has the advantage.

MR. WHITE: I didn't say it was impossible.

MR. FRAWLEY: Undesirable, uneconomic.

MR. WHITE: Yes.

MR. FRAWLEY: On the other hand, you propose to build the Ontario refineries and to back up the products coming in to Ontario from Montreal.

MR. WHITE: From the United States as well.

MR. FRAWLEY: But you would hope to back up products coming in to Montreal.

MR. WHITE: Yes.

MR. FRAWLEY: And that is where the cheaper starting cost is for the refinery, and I am just wondering how you expect to shut-back a refiner who has a better laid down cost than you would have at your Montreal refinery.

MR. WHITE: That is a very good question. He has got to balance it.

MR. FRAWLEY: Is Ottawa one of the markets you would expect to take over from the Ontario refinery?

MR. WHITE: No, I don't think so.

MR. FRAWLEY: So I have to be content to use Venezuelan crude when I put a gallon of gasoline

into my car in Ottawa.

MR. WHITE: Could I make one other statement? We are talking about pushing east from Toronto as being the Montreal market. The Montreal market we are really talking about is in Toronto. There is not much between Toronto and Montreal in the way of product demand. Now, actually some refined material from Montreal is moving west, and that is included in my definition.

MR. FRAWLEY: What is the refinery spread at Sarnia?

MR. WHITE: I don't have that figure, Mr. Frawley. I could get it, of course, but I don't have it.

MR. FRAWLEY: What is the refinery spread at Montreal?

MR. WHITE: I don't have that.

MR. FRAWLEY: Why are you not importing Middle East crude at Montreal rather than Venezuelan?

MR. WHITE: We did for a while, but to bring in more than a little you have to put in some investment in treating facilities and there is no advantage, so we have really been on Venezuelan crude as a base for supply.

MR. FRAWLEY: Well, it is more advantageous, isn't it, to bring in Middle East crude at Montreal as against --

MR. WHITE: Not necessarily. It depends

entirely on how much you pay for the crude and the transportation of the crude over from the Middle East. There are variations in that to different companies, I know.

MR. FRAWLEY: I put it to you that there is a disadvantage against Venezuelan if you use Middle East, and that you seem to have overcome that disadvantage.

MR. WHITE: You are suggesting that Venezuelan is on a basic competitive disadvantage to Middle East.

MR. FRAWLEY: I say that you can put in Middle East at a less cost than you could put in Venezuelan.

MR. WHITE: I don't think that is a correct statement.

MR. FRAWLEY: Do you know that some of the tankers are now absorbing the Suez Canal toll in their USMC minus 45 or 55?

MR. WHITE: It is not surprising, Mr. Frawley. I wasn't aware of that, though.

MR. FRAWLEY: And if they are absorbing the 16¢, which is the normal Suez Canal toll, I put it to you that you can put in Middle East crude, Arabian 34 degree crude from Montreal at 3.13 less 16¢.

MR. WHITE: I wouldn't be surprised. In effect, you get your transportation costs cut 16¢.

MR. FRAWLEY: Which is $2.97.

MR. WHITE: Yes.

MR. FRAWLEY: Well, I suggest to you that it should be as attractive to you, so attractive to you that you should discontinue using Venezuelan and put in Middle East.

MR. WHITE: I mentioned that we had not made the refinery expenditure to correct for the sour Middle East crude. If you can arrange for long-term contracts on that basis, I think we could; but that is obviously a spot situation that you are quoting.

MR. FRAWLEY: Because you think Redwater is now at a disadvantage, against the Venezuelan?

MR. WHITE: Yes.

MR. FRAWLEY: And I put it to you that Venezuelan is at a disadvantage against Middle East. But it does not seem to work out that way when Imperial sits down and decides which crude it will use.

MR. WHITE: No. The Venezuelan price is a long-term arrangement which will continue as long as we can count on getting it at that price. I don't believe that is true of the Middle East oil.

MR. FRAWLEY: In each case you are dealing with a Jersey affiliate?

MR. WHITE: That could be.

MR. FRAWLEY: Well, you told us

yesterday, because I am giving you this Arabian No. 2 posted by Aramco.

MR. WHITE: You are quite right, generally speaking, but that has nothing to do with Imperial.

MR. FRAWLEY: No, naturally it has nothing to do with Imperial, but, really, Mr.White, you take a considerable amount of offense --

MR. WHITE: I am sorry.

MR. FRAWLEY: -- when anybody tells you that your affiliates, that you enunciated in that nice, big, tall building on St. Clair Avenue, are dictated to in any way at all by the Jersey company, don't you? You do not like anybody to talk about that.

MR. WHITE: I will try to be more patient, Mr. Frawley.

MR. FRAWLEY: Am I waiting for you to say something, or are you waiting for me to say something?

MR. WHITE: I am waiting for you.

MR. FRAWLEY: I say that you should not take any offense --

MR. WHITE: Of course not.

MR. FRAWLEY: -- at me or anybody else, when I suggest to you that we have to have regard for the good of the parent company, you have to have that regard when you are making your policy decisions.

MR. WHITE: I don't think I would quarrel with that very much, but it doesn't really affect them to the disadvantage of our own company. I think I can add that.

MR. FRAWLEY: I would like to get a straight answer and then I can discuss it with you. You do not regard me as slandering you when I say that?

MR. WHITE: By no means.

MR. FRAWLEY: And I put it to you that your decision to buy Venezuelan crude under the conditions at which you can buy it, that that decision is arrived at not entirely without any regard to what is good for the parent of Creole, namely, the Jersey company?

MR. WHITE: I think it is, Mr Frawley. We are getting crude as advantageously as we can any place, and we have dealt with Creole on the same basis you mentioned, and certainly we would be glad to help Creole as long as they are willing to help us and be competitive.

MR. FRAWLEY: There isn't any question about that. It would not be good business if you didn't buy from Creole if Creole had the goods to sell you, would it?

MR. WHITE: If Creole tried to overcharge us, we certainly are not going to buy from them.

MR. FRAWLEY: Have you bought from anyone else?

MR. WHITE: Creole have not tried to overcharge us, but I can give you an example of where we were taking goods from competitive sources of supply because we wanted to and had to.

MR. FRAWLEY: Over the three or four years since you have been using Guanipa it has gone in 99 per cent from Creole?

MR. WHITE: In the last four years we have had this 11,500 barrels that you have heard so much about from Socony.

MR. FRAWLEY: To me, it is absolutely amazing. What you tell me is that the Socony company, its subsidiary on the West Coast, General Petroleum, are not buying any Alberta oil at all.

MR. WHITE: They are buying 11,500, but we are selling about 2,500.

MR. FRAWLEY: I wouldn't, for the moment, use the word "wassail", please understand me, but the fact is that the only reason that Socony is buying that 11,500 and nominating for it to the Alberta Conservation Board is that because they have another arrangement with you whereby they will sell you an equal amount of Venezuelan crude.

MR. WHITE: Those are the facts.

MR. FRAWLEY: Those are the facts. Well, it is very interesting.

Now, I might call your attention to something in connection with the performance of the

West Coast market lately. In lastnight's newspaper there was a statement by a committee called the Hays-Coffin Committee, which made a report on the United States-Canadian relations, and they said that the Canadian concern over the import restrictions is perhaps somewhat exaggerated because Canadian oil exports, despite the quota, still are higher than they were two years ago. Now, that statement, presumably, is of fact.

I would like your comments, as the president of Canada's biggest oil company and the big producer in Alberta, the person that knows as much about the Canadian oil industry as anyone in Canada; I would like to have you comment on that statement, in the light of these figures which I want to draw to your attention. These were the exports to the United States west coast from Alberta:

In 1956, 52,500 barrels daily; in 1957, 74,200 barrels daily; in January, 1958, 50,661 barrels daily, against a quota of 65,000 barrels daily. Now, in February, 1958, 40,311 barrels daily, against the same quota, and in March, 35,761 barrels daily against the same quota.
In April, 27,300 barrels daily, against the same quota and in May, 21,300 barrels daily, against the same quota, estimated; and in June it will be 21,200 barrels daily, again against the same quota; in July, the same, 21,200 barrels against the same

quota, based on nominations or contemplated nominations.

Now, with those figures, how do you explain what the gentlemen said about our being too concerned over the import restrictions and somewhat exaggerated in our feeling about the exports into the west coast market?

MR. WHITE: Isn't there a connecting sentence there that says that the Canadian reasoning, if you wish, against the import quota curbs is overstated, because our exports are below what the quota would allow us to export, and your figures, Mr. Frawley, seem to bear that out.

MR. FRAWLEY: He says Canadian concern over the import restrictions is perhaps exaggerated because Canadian oil interests, despite the quota, still are higher than they were two years ago.

Now, how do you explain that? There is nothing very high about what is going on now.

MR. WHITE: Well, there is somewhere where we do not understand one another, because I think the figures you stated, which are one-third, if you wish, in recent months, of the quota on refineries which have been importing Canadian crude bear out the statement as to our reasoning against import quotas, as opposed to importations.

MR. FRAWLEY: In other words, we have not

got a complaint against the quota, but that is rather theoretical?

MR. WHITE: Well, maybe it isn't; but it is, in this context.

MR. FRAWLEY: Why is it that in May we are only able to send to the west coast 21,300 barrels daily and there is a quota of 65,000 barrels daily? It is 21,300 which is hurting the Alberta oil industry.

MR. WHITE: It sure is.

MR. FRAWLEY: What is the explanation?

MR. WHITE: I don't know what it is. I could speculate a lot. In fact, the brief has a few speculations on that very point, itself. Inventory correction, for instance; lack of demand, which is apparently due to economic recession; and, of course, inventory correction is due to a number of factors over importation in past time. Those are the only factors I think I could speculate on.

MR. FRAWLEY: And failure to nominate by refineries on the west coast that could nominate and are not nominating?

MR. WHITE: They don't think they can -- I do not know the physical factors on this, really.

MR. FRAWLEY: I am going to make another suggestion. I am certainly trying hard to get you to take Alberta crude into Montreal. How about blending some lower gravity Alberta crudes,

while still in the province, and sending it down to Montreal at an API that you can use, comparable to what you now are getting from Venezuela, and I suggest you might be using some Stettler, some Big Valley and, indeed, I will add some Saskatchewan crude, to get you what you think you have to have to push out the foreign crude.

MR. WHITE: There is no question as to quality, and the remarks that applied to Redwater crude apply equally to any blend you want to mention. It just costs too much to get there.

MR. FRAWLEY: So if the cost was all right, you would take the Alberta crude?

MR. WHITE: Of course we would.

MR. FRAWLEY: Now, that is something we want to be clear about.

THE CHAIRMAN: Perhaps we should adjourn for lunch and reassemble at two o'clock.

---Whereupon the hearing adjourned, at 12.30 p.m., until 2.00 p.m.

--- On resuming at 2.00 p.m.

THE CHAIRMAN: Gentlemen, the Commission will now resume its hearing. Mr. Frawley?

MR. FRAWLEY: Thank you, Mr. Chairman.

Mr. White, turning back for one question on pro rationing, I made a note this morning that you agreed with Mr. Pattillo when he said that pro rationing helped to make it difficult for Alberta crude to be competitive and I would like to ask you this: If we had no pro rationing would Alberta crude, in your view, be competitive?

MR. WHITE: I cannot answer that question simply; it is a complex question and it goes back to almost the beginning, the bases of land tenure; how the reserves are sold; how oil is produced from those reserves. You cannot just say, throw pro rationing away and it will be competitive. For a long time, I believe, we had all the oil-producing area under lease, if you want to call it that, and it was not very competitive because they had no competitors. I think the question relates to the interests of producers in selling oil that they own one hundred per cent versus producers who are selling oil of which they own percentages of fifty, sixty and seventy. I think it is proper to say

the purchaser of the seventy per cent owned oil is not competitive with the oil that is owned one hundred per cent and that is what I meant to convey.

MR. FRAWLEY: Now, coming back to the business of trying to occupy the largest single market in Canada and you made this statement in your opening statement yesterday:

> "First of all, there must be no argument that in order to develop fully the producing potential of Western Canada, we will need substantial export markets in addition to any foreseeable domestic market."

I would take it, Mr. White, you agree as a general principle a person should seek his domestic markets before seeking export markets.

MR. WHITE: I do not think you can qualify a market as being desirable just because it is domestic.

MR. FRAWLEY: Nor is it desirable to have a market just because it is an export market.

MR. WHITE: No.

MR. FRAWLEY: You certainly do not have your sights set on an export market as against a domestic market primarily because it is export and therefore desirable.

MR. WHITE: Not because it is export.

MR. FRAWLEY: It is a market we should be looking for?

MR. WHITE: That is right.

MR. FRAWLEY: And you say, "Look to Ontario and look to Puget Sound and let Montreal go by."

MR. WHITE: You are stretching me a bit, there.

MR. FRAWLEY: I thought that was exactly what you said.

MR. WHITE: Under certain assumptions that is exactly what I did say. The assumptions are as follows: you can develop in the Ontario market and in the export market sufficient outlet to keep the industry on an even keel and I indicated, as well, that we thought you could. On an "even keel" in this case means an historical producing rate of between 50 and 60 per cent.

MR. FRAWLEY: Let us look at the Toronto market. You have a production situation now of \$3.07 against \$3.16 -- if you take the Home Oil figure of \$3.16. In Montreal you have an advantage now of \$3.07 against \$3.16.

MR. WHITE: We have no advantage against anything there.

MR. FRAWLEY: You say it costs you \$3.07 to put Guanipa crude into Montreal?

MR. WHITE: Yes.

MR. FRAWLEY: And you say it costs you,

or would cost you, \$3.38 as against \$3.16; the figure given you a moment ago is the Independent's proposal but you say it is \$3.38 to put Alberta crude in.

MR. WHITE: I think the brief says \$3.34 but that is all right.

MR. FRAWLEY: Now, then, what is your Alberta crude costing in Ontario? I suggest that is \$3.38.

MR. WHITE: Skipping the decimals, \$3.30 is the present laid-down cost of Redwater crude in Sarnia.

MR. FRAWLEY: That is Sarnia.

MR. WHITE: You said Ontario.

MR. FRAWLEY: I said Ontario but I am glad to have both of them. Sarnia, \$3.30; Clarkson, that is the other big refining area, I suppose. Would you take \$3.38 from me?

MR. WHITE: Yes, Mr. Frawley, that is right for Toronto and Clarkson.

MR. FRAWLEY: What would it cost to ship Venezuelan crude from Toronto to Montreal?

MR. WHITE: How are you going to ship; is it theoretical pipe line movement or tankers?

MR. FRAWLEY: I would think whichever way -- suppose you made up your mind you were going to put this Venezuelan crude into the Toronto refinery area. I suggest you could do

it for about ten cents.

MR. WHITE: We do not have a pipe line; you are really asking about tankers, are you?

MR. FRAWLEY: I would take it either tanker or ---

MR. WHITE: There is quite a difference.

MR. FRAWLEY: You have two estimates; both tankers and pipe line.

MR. WHITE: Heavens, no, but the cost of moving by tankers -- we are figuring going the other way -- about 25 cents, T-2 USMC minus 35 using the Toronto seaway.

MR. FRAWLEY: From where to where?

MR. WHITE: The terminals are Clarkson and Montreal.

MR. FRAWLEY: If you took 3 cents per 100-barrel/mile,what would it take to move it up to Toronto?

MR. WHITE: I am just going to give you the tanker figure which is 27 cents. What is the question?

MR. FRAWLEY: Using 3 cents per 100-barrel /mile what would it cost you to move it up to Toronto?

MR. WHITE: Can we agree on 400 miles. It would be 12 cents, I guess.

MR. FRAWLEY: You are finally in my range; I will settle for 12 cents. Now, you

have a 31-cent differential; \$3.07 against \$3.38. Now, if it only costs you 12 cents to get Venezuelan crude to Toronto you could back Alberta crude out of Clarkson.

MR. WHITE: We are back at the position where we have to define a 3 cents per hundred barrel mile that was quoted. I am suggesting \$2.05 or thereabouts was the figure and we said we thought a minimum of 3; within the terms of reference of that pipe line, between 200,000 and 300,000 barrels. We have no such pipe line from Montreal to Toronto and I believe that crude could be laid down from Montreal even with Canadian crude and you would have an even competitor.

MR. FRAWLEY: With Venezuelan crude.

MR. WHITE: Certainly. We would certainly be opposed to doing that but this is quite an academic question and it is interesting that you bring it up.

MR. FRAWLEY: I am bringing it up for very obvious purposes. You are, I put it to you, departing from the strict application of hard economic laws by not bringing Venezuelan crude up to Toronto.

MR. WHITE: I do not think we always live by what you call "hard economic laws" otherwise we would not be buying 11,500 barrels of

Venezuelan crude and selling 2,580 barrels of crude.

MR. FRAWLEY: I put it to you: you are certainly sticking to the hard economic laws when you refuse to take Alberta crude into Montreal because you can put Guanipa crude in there more cheaply.

MR. WHITE: The principle of adhering to hard economic laws is a matter of degree in human life.

MR. FRAWLEY: I put it to you: you are not willing to depart from what you call the strict economic laws in putting Guanipa crude into Montreal because it is produced by Creole, your affiliate.

MR. WHITE: Mr. Frawley, the whole tenor of all our discussion here has been to tell you that is not true. I repeat that.

THE CHAIRMAN: I think, Mr. Frawley, after what Mr. White has been saying, I think it is a little unfair to say his company refuses to put Canadian crude into Montreal. As I understand his evidence, yesterday and today, he said that the decision of his company is that to put Canadian crude into Montreal is an uneconomic operation and should not be done for that reason, but, to make it possible to do so, certain government acts would have to be done, such as quotas and so on, to which his company takes objection.

I think that is the substance of what his testimony has been. Not that he refuses to put Canadian crude into Montreal.

MR. FRAWLEY: If he refuses to do it for the reasons which you have outlined -- I am not endeavouring to test his sincerity, if I may use that word without committing slander, Mr. White -- I want to test his sincerity by looking at what he does now in Toronto. I say you have a different economic approach for putting Alberta crude into Toronto, with which I am entirely in favour, but I do say you have a different economic test for Toronto than you apply in Montreal.

MR. WHITE: There is another factor that should be considered, Mr. Frawley. You have had testimony from the Interprovincial people, and to some extent from ours, that we have financial obligations and guarantees with Interprovincial Pipe Line. Those are important to us, as well.

MR. FRAWLEY: You say that is another reason then, is it, you do not think you could continue to discharge those obligations to Interprovincial if you took some Redwater crude to Montreal.

MR. WHITE: It is pretty hard to see how we could run Guanipa crude at Sarnia and discharge those obligations.

MR. FRAWLEY: That is taking

Guanipa crude up to Sarnia. On the cold economics of it, it would only cost you 12 cents to take it from Montreal to Toronto; you could probably back out Alberta crude on the cold economics of it in Sarnia.

MR. WHITE: May I remind you, your cold economics is based on 200,000 to 300,000 barrels; our line capacity at our refinery in Sarnia is 30,000 barrels.

MR. FRAWLEY: If you went with the pipe line to Montreal, what effect would that have on the forecast that you have given us for Ontario refineries and the additional throughput for those refineries if the pipe line went to Montreal.

MR. FRAWLEY: Well, can you tell me whether it would result in some diminution or could you still hold up these additional throughputs for Ontario refineries if you went with crude to Montreal, Alberta crude to Montreal?

MR. WHITE: Well, it is very difficult. You have got to -- we are in the wrong situation, obviously. You have got to decide on what conditions of tariff and the route a pipeline might go to Montreal. Should the pipeline be an enlargement or extension of Interprovincial, there would be then no problem; if it should be a branch that cuts off at Superior and goes to Montreal, then the problem gets more complicated; and if it goes direct to Montreal, then I think we have a problem to work out. If you put it into Montreal you would have that position, provided that one of these outline projects didn't completely upset the interprovincial pipeline and other things of that nature.

MR. FRAWLEY: Now, I want to discuss with you something that I think is of major importance, that is,why you have no adjustment of equivalent quality when you are comparing Redwater crude (35%) with Guanipa crude (21%).

MR. WHITE: I think Mr. Cogan will answer that.

MR. COGAN: Mr. Frawley, I think the best way to start this is to state that API gravity is

only a modest indication of relative qualities of crude. In any given area where other characteristics are similar it is a fair indication of relative values. When you come to bring crudes from a variety of sources, API has relatively little significance. What really counts is the volume range for crude oil, the hydrocarbon pipes and content in the types of sulphur, if you wish, and a great many other characteristics of that sort. Our evaluation made in detail shows that we are well satisfied that Guanita crude at Montreal and Redwater crude because of its different characteristics -- this all sounds a little involved, and it is, unfortunately. I think it might be interesting if I could give you a reference that gives some background to this, and I would like to refer you to the Oil and Gas Journal of February 24th. This article, which was by Mr. Adams and Christen of, I believe it was,the A.P.A. organization, discusses some of the interesting anomolies, and I would like to quote just one sentence which I believe seems to be pertinent.

"Comparative evaluation of crude oils ...
"based on gravity alone is just manifestly
"impossible."

MR. FRAWLEY: When Imperial Oil posts prices in Alberta do they not normally and uniformly show different gravity and sulphur contents?

MR. COGAN: I think in dealing with crude

oils they tend to have the same carbon content, and in that you have a differential factor. Everything else being equal, gravity has an importance. To go a little bit further, you find some of the postings in the United States today are actually penalizing crude oil for higher gravity, which is a peculiar sort of situation.

MR. FRAWLEY: It is most unusual.

MR. COGAN: I say it is unusual, but it is actually happening. My point is that API gravity is merely an indication, and it is only one factor. I would say when you are dealing with crudes it is not the most important factor when you are dealing with quality.

MR. FRAWLEY: Mr. Cogan, that has been the accepted pricing technique from time immemorial, hasn't it, that you vary your price with your varying API degrees?

MR. COGAN: I would say that would apply in the case of simple installations in the field. Where other characteristics are uniform it has made API gravity a convenient method. I think in Alberta crudes they are similar, that there is still a means of differentiating.

MR. FRAWLEY: If I had a piece of producing property in Wainwright and another in Pembina, I would say that I was better off in my Wainwright property.

MR. COGAN: Yes, but I would say that the difference in gravity is not the only difference between the two.

MR. FRAWLEY: But you must adjust that higher API gravity in buying crude oil.

MR. COGAN: Everything else being equal, you should adjust for API gravity.

MR. FRAWLEY: Then why are you not adding to the laid-down price for Venezuelan crude something to show the Redwater crude?

MR. COGAN: Actually the volume range which API tends to indicate is virtually the same. This is a very involved proceeding, as you can appreciate, Mr. Frawley, and each individual refinery has its own conditions depending on the types of equipment and design. That is the reason I attempted to give you a reference and a conclusion of that reference so that you can appreciate I am not only talking from my own knowledge but, however, a lot of people have the feeling that that is the way it goes.

MR. FRAWLEY: And sulphur content always requires a correction in the pricing of crude.

MR. COGAN: Yes. Again there are a great many different types of sulphur contents, the type, the volume range all make a good deal of difference. Everything as being equal, sulphur,

I would say, would be a disadvantage. I have seen many cases where asphalt seemed to be better. So again generalization is extremely difficult.

This is a very difficult refinery problem, and all I ask you to take is that you cannot make a complete generalization on today's complicated refinery conditions that API is the controlling factor on values.

MR. FRAWLEY: And although Guanipa crude has 1% sulphur and Redwater has only ½% sulphur, that is all washed out and no correction is necessary.

MR. COGAN: I think you have to deal with all the sulphur contents of all crude oil. So far as the sulphur content of Guanipa is concerned, it is not a serious problem from a refinery standpoint. All of that has been taken into account in our evaluation. As a matter of fact, our calculation shows Guanipa to be a little more than Redwater, but I think it worthwhile to say they were the same.

MR. FRAWLEY: I put it to you that if you make the adjustments which are ordinarily involved for API and for sulphur, you should take Redwater at 3.16 laid down in Montreal and you should take Venezuelan at 3.07 and plus it by 3¢ for gravity and plus it by 10¢ for sulphur, and that will bring you a barrel price of $3.25 instead of the price you would put before the Commission.

MR. COGAN: I can't quarrel with your

arithmetic, but I would certainly be unhappy in taking crude oil on that basis simply because it wouldn't reflect the true values.

MR. FRAWLEY: Mr. Cogan, not only have we a hard time to get our Alberta crude into this one remaining attractive Canadian market, and not only have we the distance to fight; we have this extraordinary situation that, although we have a 35° gravity crude, that is all washed out because Imperial says --

MR. WHITE: Mr. Cogan has explained that it isn't Imperial oil.

MR. FRAWLEY: It seems to be Imperial oil and Shell so far.

MR. WHITE: I think his reference was to the trade journal information, the Oil and Gas Journal, February 24, 1958, which will give you a little background.

MR. FRAWLEY: I will quote to you from the journal of March, 1958. You have seen the gravity schedule figures before.

MR. COGAN: I have said earlier, and I repeat it, that with regard to everything else being equal, gravity is a factor but it is not the controlling factor. I have no more ways of explaining it, I am afraid, Mr. Frawley.

MR. FRAWLEY: Now, you are saying, Mr. White that you took a little umbrage at the expression

"commercial preference", and I would like to call your attention to page 26 of your brief, and at the bottom of that page, paragraph 3, you say this:

"Because of his lower costs the foreign producer "generally starts today with a relatively wider "profit margin available for competitive action. "In addition, his incentive to sell his own "production is greater than that of the pro "rated producer who must purchase a considerable "number of barrels from others for each addition- "al barrel of his own production".

The foreign producer -- we could well call him Creole Petroleum, and I suggest that you have pretty well defined Creole Petroleum and the commercial preference of Creole Petroleum vis-a-vis Canadian oil in that paragraph.

MR. WHITE: I am sure it is the same.

MR. FRAWLEY: You said on page 25 that you were looking forward to a reduction of about 50,000 barrels a day, and I would like to ask you how far your study has gone in that respect and who are these people that you think will reduce their nominations for Alberta crude by 50,000 barrels a day.

MR. WHITE: I think I explained that earlier, Mr. Frawley. I said we did not know who or what caused this reduction, but we also said there is 250,000 barrels, more or less, displacement back into the world supply picture, and it is more than likely some of that would be produced in Puget Sound.

I also explained there was no further use in our purchasing Venezuelan Socony and we would lose that 11,500 barrels for sure.

The balance of that is just a "guesstimate", as you can imagine.

MR. FRAWLEY: Can you tell me, Mr. White, as to what amount of the 75,000 to 80,000 barrels a day you state as being the increase in Ontario under your minimum needs, what part of that would accrue to the Alberta producers?

MR. WHITE: The general implication is that it all will.

Well, now, wait a moment. We have Saskatchewan in the picture. I don't know, really, how to answer the question, because we do not know how it will shape up.

MR. FRAWLEY: How much production is shut in in Saskatchewan?

MR. WHITE: Not a large amount. The figure I hear behind me is 15,000 barrels a day, or thereabouts. I do not know how accurate that is.

That is of the light crude. I am not talking about heavy crude.

MR. FRAWLEY: Now, you did say something about a displacement of 200,000 barrels a day and the effect it might have, and it was at that point you thought it might have some effect on Puget Sound. What do you mean when you speak about displacing 200,000 barrels a day?

MR. WHITE: Well, it seems obvious that there is -- let us stick to one figure. If 200,000 today is being refined in Montreal and is displaced by Canadian crude which is refined in Montreal, then it has to go someplace, possibly back into the ground, as you suggested earlier.

MR. FRAWLEY: I had a picture of 200,000 barrels of crude oil a day floating around in the Atlantic, looking for a market. Now, you are not looking at it that way, are you?

MR. WHITE: It is a sad sight, Mr. Frawley.

Don't let's kid ourselves. If 200,000 barrels is displaced there is going to be a lot of competitive pressure to put it someplace, and I think we have said that some part of it is apt to wind up in markets that we cannot control.

MR. FRAWLEY: And the competitive pressure is the pressure from a company like Creole, which leads all the rest in the production of crude in Venezuela.

MR. WHITE: Well, I would not give them all the marks.

MR. FRAWLEY: Well, I would give them almost all the marks for getting oil out of the ground.

MR. WHITE: Middle East is chasing Creole around the block.

MR. FRAWLEY: Well, we are just trying to look at one thing at a time. The pressure would perhaps come from Creole not wanting to leave this concession oil in ground?

MR. WHITE: If you add about 30 other names to that, you would have the list complete.

MR. FRAWLEY: But this is different, keeping Creole in the ground, for a properly regulated product?

MR. WHITE: It is not economic. It is not the same thing.

MR. FRAWLEY: Those are all my questions, Mr. Chairman.

THE CHAIRMAN: Thank you, Mr. Frawley.

Does concession oil not migrate, Mr. White?

MR. WHITE: It is a migratory mineral, sir.

THE CHAIRMAN: Mr. White, I am not quite clear in my mind with respect to the meaning and effect of Imperial's undertaking with Interprovincial with respect to Canadian crude to Sarnia. Mr.Hamilton, this morning, in my recollection, mentioned so many barrel miles per year. I would like to find out what

your maximum guarantee, so to speak, under that agreement is, in terms of barrels per day.

MR. WHITE: Mr. Chairman, we can get you the exact details on that first guarantee. There is a second, less stringent guarantee, which I will touch on in a minute, but, as I recall at the time that Interprovincial was being launched, so to speak, we figured on 55,000 barrels running at Sarnia, plus certain estimated takings at Regina and Winnipeg and, with those as our best estimate of what we could do, we added up the miles and multiplied by the barrels and it came out to 55,000,000, or whatever it is, in that guarantee.

The second guarantee came about when Interprovincial had to borrow further funds to extend their system and we were able, at that time, to eliminate any sort of cash equivalent, but undertook the obligation to transmit oil through the Interprovincial system as long as we were taking oil to Sarnia or as long as the bonds lasted, whichever was longer.

THE CHAIRMAN: Do I understand that you would take the position that Imperial is obligated to Interprovincial to ship all of its Canadian crude over the Interprovincial line?

MR. WHITE: All that is going to Sarnia.

THE CHAIRMAN: Yes, all that is going to Sarnia; so, assuming that your refining capacity at Sarnia is 85,000 barrels per day, I think it is --

MR. WHITE: At the moment.

THE CHAIRMAN: -- at the moment, and your refining capacity at Montreal is what?

MR. WHITE: 70,000 barrels per day.

THE CHAIRMAN: So, presumably, there would be, other things being equal, no reason why a new pipeline, if there were one, that did not go over the Interprovincial system or was part of it, would not be free to ship the 70,000 barrels per day of Canadian crude over that new pipeline.

Am I correct in that assumption?

MR. WHITE: I think you are correct, provided the side effects in so doing would not tend to set back the Sarnia capacity and get us to the danger point under our first guarantee. There is no prohibition, if that is what you mean.

THE CHAIRMAN: That is what I mean.

MR. WHITE: Right.

THE CHAIRMAN: Could I come, for a minute, to this Portland-Montreal pipeline: have you the information there as to whether or not the Portland American side of the pipeline and the Canadian side, or either, received special depreciation, the one from the United States Government and the other from the Canadian Government, when the line was built in 1941?

MR. WHITE: I think they did. The best information we have is contained in the ballot sheet

and all we can give you is depreciated plant.

THE CHAIRMAN: Can you give me the undepreciated capital in this line at the present time?

MR. WHITE: We will divide it into two sections. I am afraid I have to do that, because that is the way I have got it.

Fixed capital assets at Portland -- and this, I presume, would be the position last year, although I will check it -- it is December, 1957: $29,946,721; depreciation reserves, $7,810,311; remaining worth, if you wish, $18,136,410.

Similar figures for the Montreal Pipeline part: fixed capital assets, $11,405,654; depreciation, $4,375,487, leaving $7,030,177.

If you add the two remaining book values together, you find that we have $25,166,587. left in the line, which -- well....

THE CHAIRMAN: Is that because, when you more than doubled the capacity of that line, you did not get any right to charge special depreciation?

MR. WHITE: That is a point I cannot answer. These are the book depreciation figures and also, of course, the capital costs have increased periodically during the life of the system; capital investment.

THE CHAIRMAN: When was the line enlarged? I forget. It was given in testimony.

MR. WHITE: It has been done continuously -- just a moment: the major enlargement, which means

an 18 inch line, was built in 1950. There had been other power additions and so on, as well.

THE CHAIRMAN: Probably it is correct in assuming there is no special depreciation being charged on that, but merely depreciation at a normal rate?

MR. WHITE: It would look that way, but we have no information, I am sorry.

THE CHAIRMAN: Now, at the expense of being a little redundant in places, I would like to get some figures on the record and I would ask you to give us these figures or check them for us as we go along. Would you do that? I am seeking to break down what you called yesterday the demand for Canadian crude in the year 1957. Now, my figures show that, in the Prairie Provinces, the demand totalled 145,000 barrels per day.

MR. WHITE: That figure is 149,000.

THE CHAIRMAN: 149,000. This is only of Canadian crude?

MR. WHITE: Canadian crude.

THE CHAIRMAN: In Ontario, I have 137,100 barrels a day.

MR. WHITE: We have 135,000.

THE CHAIRMAN: I got these figures yesterday, in testimony. Well, that is all right. In addition, in Ontario, there was foreign crude of 21,700 barrels per day.

MR. WHITE: I am sorry to be so --

THE CHAIRMAN: I am afraid this may take a little time, but I have a purpose.

MR. WHITE: Mr. Chairman, it is perfectly obvious you have been reading our brief, because the 137.1 appears in that year and also the 21.7. This data book is not quite --

THE CHAIRMAN: Well, I thought it was from the testimony, but I broke these numbers down.

MR. WHITE: Your figures are right.

THE CHAIRMAN: Then, in Central United States, there is export in 1957 of 56,600 barrels per day of crude.

MR. WHITE: That is right.

THE CHAIRMAN: I would assume that was the Woodley Canadian export to St. Paul.

MR. WHITE: In part, plus the exports of two refineries just at the Duluth area, at Wrenshall and, I guess, Superior, 4.5 in Michigan and 14.9 in the two plants I have mentioned.

THE CHAIRMAN: Just while we are on that, for the moment, have you any reason to feel that that export market for Canadian crude, which I think comes generally from the southeastern part of Saskatchewan, is in danger? I should be fair with you and tell you that Mr. Sandlin expressed considerable doubt as to his ability to convince Washington that that import should be permitted to continue.

MR. WHITE: I think there is a question there. I don't know the details of the quota allocations, but it is certainly less than full refining capacity. Mr. Sandlin's situation is rather unfortunate, because he does not have a real alternative source of supply. Whether he can shop around -- I really don't know how these rights to import are handled, but it has been rumoured they can be traded, and it might be possible for him to import his full quantity, but, certainly, that refinery is in some difficulty. I think that is right.

THE CHAIRMAN: Well, then, to continue, I take it the figure for the west coast of Canada, for the demand for Canadian crude in 1957, was 155,200 barrels per day, of which 74,200 went to Puget Sound and 19,600 was an offshore movement by tanker?

MR. WHITE: That is right.

THE CHAIRMAN: Can you give me the total of those figures for Canadian crude?

MR. WHITE: You mean add them up?

THE CHAIRMAN: Yes.

MR. WHITE: That is 93.8, isn't it?

THE CHAIRMAN: I have 493,900 barrels per day.

MR. WHITE: 499.62½.

THE CHAIRMAN: The Prairies was 149 and

not 145, was it? My total comes to 493,900.

MR. WHITE: We have a figure of 5,000 barrels for pipeline fuel. That is probably the difference.

THE CHAIRMAN: Well, call it roughly 500,000 barrels of Canadian crude.

MR. WHITE: That checks.

THE CHAIRMAN: Could you give me the number of barrels per day of crude, which I assume is entirely foreign crude, brought into the Montreal market in 1957?

MR. WHITE: 243,000 barrels per day.

THE CHAIRMAN: That is by the industry?

MR. WHITE: Oh, yes, this is industry.

THE CHAIRMAN: 243,000?

MR. WHITE: Yes.

THE CHAIRMAN: And, in the Maritime Provinces and Newfoundland?

MR. WHITE: No crude, of course, goes to Newfoundland. The Maritime Provinces imported 41,000 barrels per day.

THE CHAIRMAN: 41,000?

MR. WHITE: 41,000.

THE CHAIRMAN: Is there any other importation of foreign crude into Canada at any other point, in 1957?

MR. WHITE: We have lists of 22,000 barrels imported to Ontario.

THE CHAIRMAN: 21,700, is it not?

MR. WHITE: Well, yes. I think that is all the crude imports.

THE CHAIRMAN: That makes a total of 306,000 barrels per day of foreign crude imported into Canada?

MR. WHITE: That is correct.

THE CHAIRMAN: Can you give me the dollar value of that foreign crude?

MR. WHITE: We can, in just a minute. We did it on another basis.

THE CHAIRMAN: While we are doing that, could you go to the products?

MR. WHITE: Certainly.

THE CHAIRMAN: I take it we exported no manufactured products from Canada?

MR. WHITE: Very little. It is something of the order of 8,000 barrels a day last year. That is to no particular market. I think, generally speaking, it was business for the U.S. Armed Services.

THE CHAIRMAN: Let us take the imports of manufactured products in 1957.

MR. WHITE: The total, 95,000 barrels a day.

THE CHAIRMAN: Am I correct in saying that is made up from Maritimes, 22,000 barrels?

MR. WHITE: Well, we have a figure of 20,000 here. I don't know just what the difference is. Oh, Newfoundland is another 6,000. That is 26,000.

THE CHAIRMAN: And Quebec is 28,000 barrels.

MR. WHITE: I think that is correct. I am sorry, did you say Quebec?

THE CHAIRMAN: Yes. I have here 28,000 barrels, and Ontario 23,000 barrels.

MR. WHITE: Right.

THE CHAIRMAN: And the Prairie Provinces 4,000 barrels.

MR. WHITE: Yes.

THE CHAIRMAN: And British Columbia 14,000 barrels.

MR. WHITE: Correct.

THE CHAIRMAN: Can you tell me what the total dollar value of those imports would be -- the dollar cost -- put it that way?

MR. WHITE: That will come back with the other information.

The answer to your question as to imported crude is 306,000 barrels per day; guessing the quality, $335 million annually.

THE CHAIRMAN: But roughly $335 million?

MR. WHITE: Yes.

THE CHAIRMAN: Could you give me a figure which would enable me to calculate the return in that dollar cost for each 5,000 barrels per day, a unit of that kind?

MR. WHITE: Certainly we will get it for

you. With $30,000 for 10,000 barrels, roughly $3 a barrel.

THE CHAIRMAN: Thank you. Would you anticipate, Mr. White, any substantial variation in those volumetric figures, dollar figures, for 1958?

MR. WHITE: That is a hard question. 1958 will not be as good a year as 1957. It is logical to suppose that imports will come down somewhat. So it will be of the same order; that is my guess.

THE CHAIRMAN: In your brief you give us the figures for producibility of Canadian crude for 1958 which you set at 935,000, estimated at 935,000 barrels per day; 1960, 1,050,000 barrels; 1963, a range of 1,350,000 to 1,500,000 barrels per day. Could you give me the percentage of the actual production of Canadian crude to producibility for 1957?

MR. WHITE: 1957, reading off the curve, 52 per cent.

THE CHAIRMAN: 52 per cent?

MR. WHITE: It is a big curve. Just a minute. Everybody agrees -- 52 per cent.

THE CHAIRMAN: If you assume for a moment --

MR. WHITE: Can I amend that statement for 1957? It is 55 per cent.

THE CHAIRMAN: And assuming the same, or roughly the same production of Canadian crude in 1958, could you give me a quick calculation of

the percentage of production to producibility, using your figure of 935,000 barrels a day as a ladder?

MR. WHITE: If you keep the same producibility you will not greatly change that percentage -- 53 per cent.

THE CHAIRMAN: Can you give as the percentage of production to producibility in the United States of America in 1957?

MR. WHITE: We will have to look that up and give you a note on that. I don't think we have it here, I am sorry.

THE CHAIRMAN: And by the same token, I suppose you cannot give us the figure, the same figure for the Middle East or for Venezuela?

MR. WHITE: That will have to be secured for you. As a matter of information, I do think the United States percentage of production to producibility is somewhat higher than this figure given, but that is only on a rough check.

THE CHAIRMAN: Would you be good enough to get that information for the Commission, please? That is respecting the United States, the Middle East and Venezuela.

MR. WHITE: Very good.

THE CHAIRMAN: Now, then, I was going to ask you to do a calculation on your assumption of the 200,000 barrels of Canadian crude going into

the Montreal market, but that is a very simple calculation on the basis of the figures you have just given me.

Can you, Mr. White, give us the figures for world consumption -- well, world demand, I suppose -- for crude oil in 1957?

MR. WHITE: The total world demand includes some Russian demand, estimated, but it is 18 million barrels per day -- 18,207,000.

THE CHAIRMAN: What would be the free world demand?

MR. WHITE: Break it down anyway you like here. Well, 11,000,000 barrels, Western Hemisphere, 5,000,000 barrels Eastern Hemisphere, 2,000,000 barrels Russia and satellite countries. That is roughly the breakdown.

THE CHAIRMAN: What would the world production by areas be?

MR. WHITE: Production by areas: Western Hemisphere -- do you want it in any detail? It is about 12,000,000 barrels per day; Middle East, 3,464,000; the balance of Africa, Europe, Asia is roughly 700,000, being a total of 15,300,000 barrels. Russia is 2,200,000 barrels, a total of 17,500,000 barrels daily. This is crude only, of course.

THE CHAIRMAN: Would it be possible for you to give us the figures respecting the volumetric

amount of crude, foreign crude, imported into the United States of America (a) from Venezuela -- I am trying to take a year, 1957; I hope that in your judgment that would be a fair year to take, would it not?

MR. WHITE: I think so. I think 1957 is all right.

THE CHAIRMAN: The volumetric amount of crude imported into the United States of America (a) from Venezuela in 1957; (b) from the Middle East; (c) from Canada, but we know that pretty well; and (d) from elsewhere.

MR. WHITE: We actually have that information here but it will have to be added up.

THE CHAIRMAN: Can you give it to us in totals?

MR. WHITE: Yes.

THE CHAIRMAN: Well, at the same time perhaps you would give us that, because those figures would enable you to give it, the percentage of imported crude into the United States to the total United States production.

MR. WHITE: Yes, that will follow readily.

THE CHAIRMAN: Would you tell us, please -- I think you have -- your refining capacity in Montreal? Is it 55,000?

MR. WHITE: Seventy thousand barrels per day.

THE CHAIRMAN: Can you tell us what that was ten years ago?

MR. WHITE: Our guess was 45,000 barrels in 1948.

THE CHAIRMAN: And the total refining capacity in Montreal today is what?

MR. WHITE: It is 273,000 barrels a day. As a matter of fact, we have dug out some seven years, 1956 to 1962, some historic, some projected, if they would be of any interest to the Commission.

THE CHAIRMAN: Yes, certainly, but could I get this on the record first?

MR. WHITE: Yes.

THE CHAIRMAN: I want to know the percentage growth in the refining capacity in Montreal over the past ten years for the industry.

MR. WHITE: That could readily be developed, but I don't think we can do it right here and now. We will do so, however.

THE CHAIRMAN: Now, can you give me your projection?

MR. WHITE: The projection is a little more than that. It deals with the expansion and installation, and unless something happens to upset this, it is an announced programme. The Ontario refineries in the years 1956, 1957, 1958, 1959, 1960, 1961, 1962; in 1956 the capacity was 159,000 barrels a day; 1957, 215,000 barrels a day; 1958,

215,000 barrels a day; 1959, 255,000 barrels a day; 1960, 268,000 barrels a day; 1961, 288,000 barrels a day; 1962, 288,000 barrels a day.

In Quebec, the same years: 1956, 247,000; 1957, 263,000; 1958, 273,000; 1959, 273,000; 1960, 298,000, and that carries on through the next two years.

The percentage growths in this forecasts are 31 per cent Ontario, 21 per cent Quebec, in our refining capacity.

THE CHAIRMAN: Over the last ---

MR. WHITE: No, beginning 1956, projecting through 1962.

THE CHAIRMAN: Then at this point could you tell us what your projected volumetric growth would be over the last five years, say, carrying it into 1962, of your importations of crude to service the so-called Montreal market? In other words, what increase would you anticipate during that five-year period?

MR. WHITE: I would say over the five-year period in which you are interested importations would rise from 250,000 to roughly 295,000-300,000 barrels, about 20 per cent.

THE CHAIRMAN: You figure that by 1962 they would have risen to approximately 300,000 barrels a day?

MR. WHITE: Yes, if the refining capacity

projected is -- well, there isn't much growth in there. If it is backed down by Canadian oil that will not materialize.

THE CHAIRMAN: But the market is growing?

MR. WHITE: Oh, yes.

THE CHAIRMAN: And what would be the figure with respect to the Maritime Provinces? That is the figure of 41,000 barrels for 1957. What would you anticipate it would be by 1962?

MR. WHITE: It is 77,000. That is a growth of almost 100 per cent.

THE CHAIRMAN: Is there any special reason for that?

MR. WHITE: I don't know whether it is increase in industrial activity. There is projection for Saint John.

THE CHAIRMAN: This all means that some of those products would be finding their way to the Montreal market?

MR. WHITE: I am quite sure they would.

---Short recess.

THE CHAIRMAN: Gentlemen, we will now resume the hearing.

Mr. White, I believe there was a qualification that you or Mr. Twaits wished to make in that the wrong inference might be drawn from the facts which I elucidated, on the foreign crude, the exchange value, with particular reference to the Maritimes, because of the fact that that new refining capacity would displace the importation of products now being brought into that area. Is that right?

MR. WHITE: Yes.

THE CHAIRMAN: Can you give us the adjusting figures and explain that?

MR. TWAITS: Mr. Chairman, I wonder if it would be of more help to the Commission if we endeavoured to draw up a table, showing the figures as we estimate them for 1962 versus 1957 of crude imports and product imports by the industry into various areas of Canada and then we will have to put that on several different bases and put the appropriate values as we see them on the foreign exchange value. Would that be of assistance?

THE CHAIRMAN: Definitely. Just an arithmetical calculation from the facts you have been giving us, I think, might mislead the Commission.

MR. TWAITS: That's right, sir. I think we can put that together within the next 24 hours,

I hope; within another 24 hours.

THE CHAIRMAN: Thank you.

MR. WHITE: Mr. Chairman, there is one other piece of information which might be of some interest to you. You were inquiring as to the foreign exchange value of the crude importation based on 1957 and we have now made a calculation of what might be called the intermediate case and the full Montreal case, for comparison, if that is of interest to you.

THE CHAIRMAN: Yes.

MR. WHITE: The intermediate case, first, starting with the 1959 (and this is comparison with the minimum case; in other words, it is, really, in comparison with circumstances not unlike 1957):

In 1959, the savings would be $112,430,000 annually. In 1960, $129,050,000; in 1961, $124,550,000; in 1962, $158,570,000.

In the Montreal case,we are assuming the full year 1961, when such line would be in operation, and the savings would be $243,650,000 in 1961 and, in 1962, $254,450,000.

There is a difference in the two cases, that is, the intermediate and Montreal, each year, of the order of $100 million. The Montreal case would be $100 million more for foreign exchange annually than the intermediate case. I think they will reduce, because the rate of growth in Ontario will be, perhaps, a little

larger than it will be inthe Montreal area.

THE CHAIRMAN: Let us make sure we know the basis of your calculation. When you speak about the intermediate case, you are speaking of 75,000 to 80,000 barrels a day additional Canadian crude going into the Toronto area?

MR. WHITE: That is correct.

THE CHAIRMAN: And, speaking of the Montreal market, so-called, as a 200,000 barrel proposition?

MR. WHITE: The Montreal case is as set forth in the brief.

THE CHAIRMAN: Thank you very much. Now, I have forgotten: did I ask you to give us the total dollar cost of the imported products in 1957?

MR. WHITE: I think you asked that and that will have to be calculated.

THE CHAIRMAN: That is something to which we have not got an answer?

MR. WHITE: That's right. I think you asked, as well, for the crude imports into US in 1957, by country of origin.

THE CHAIRMAN:Yes.

MR. WHITE: Canada, 155.5 thousand barrels a day; Venezuela, 525 thousand barrels a day; Middle East, 235 thousand barrels a day. The other -- well, that is 102 thousand barrels a day.

The total imports should add up to 1,017 thousand barrels a day. The US domestic production,

7,395 thousand barrels a day.

Total imports, then, bear a relationship of 13.7% of US production.

THE CHAIRMAN: Thank you. I think you gave us the refining capacity in the Toronto-Sarnia area. Did you give us the percentage growth in that area in the past ten years?

MR. WHITE: We gave you the percentage growth only in the projected years 1957 to 1962, and we are getting the historical figure for you.

THE CHAIRMAN: Have you made any calculation as to what the additional royalties and bonus payments and revenues of that nature would be to the provinces in Canada (I assume just Saskatchewan and Alberta would be involved) in the event of 200 thousand barrels per day of Canadian crude displacing foreign crude in Montreal?

MR. WHITE: That would be a very complicated calculation. You might make a stab at the royalty payments, assuming some division of freehold in ground acreage. I don't know how you would calculate the bonus payments. Possibly the Conservation -- oh, no . . .

MR. FRAWLEY: Don't look at me.

THE CHAIRMAN: Mr. Frawley, I wonder if you could have such an estimate made for us?

MR. FRAWLEY: Mr. Somerville, the Deputy Minister of Mines, that is his department. I will

ask him to do that.

THE CHAIRMAN: Will you undertake to do that for the Commission?

MR. FRAWLEY: Yes, sir.

THE CHAIRMAN: And I would assume, Mr. White, that you would not differ with the view that in the event that such a project should come into being and Canadian crude moved to the Montreal market in the volumes that have been discussed, that this would result in very substantial increased earnings to western producers?

MR. WHITE: Not quite as broadly as you have stated, Mr. Chairman. It would result in substantial increased earnings to some, some increased earnings to others and, assuming no change in the crude price, no increased earnings to the greatest number of the producers here. I think we have some testimony or some mention in the brief to that effect.

THE CHAIRMAN: Yes, I think your brief said that relatively few of the total number of producers would share to any substantial degree in the increased production; but, surely, that would result, in any event, to those producers so sharing, in a substantial profit, put it that way?

MR. WHITE: Oh, most certainly.

THE CHAIRMAN: Taxable profit?

MR. WHITE: A good adjective.

THE CHAIRMAN: So that corporation taxes

and income taxes in Canada might well be swollen considerably by such a course of action?

MR. WHITE: I assume we agree there has to be no change in crude price. In that case, I am in complete accord with you.

THE CHAIRMAN: Well, we will have to take that as an assumption. If there is any change, it will mean that much less profit.

MR.WHITE: Oh, yes, and that is a very good thing.

THE CHAIRMAN: Furthermore, it would result in substantially more of what you call gambling dollars, would it not, for further exploration?

MR. WHITE: We don't know that, of course. You raise your ceiling 200 thousand barrels -- what I am trying to say is that the industry has developed very rapidly and you add 200 thousand barrels at the top of the market, which will develop rapidly, and then we will hit that ceiling, and I don't know what will happen.

THE CHAIRMAN: Then you are up to 70% of the projection of producibility.

MR. WHITE: Well, if you have the lid on your market, that 70% will go down again.

THE CHAIRMAN: But with the general theory you have no reason to quarrel?

MR. WHITE: Oh, no, none whatsoever.

THE CHAIRMAN: Can you tell me where the sales tax applies on petroleum crude oil?

MR. WHITE: It applies at the manufacturing level. The refineries will calculate and, I suppose, pay at point of sale -- gasoline.

THE CHAIRMAN: Am I correct in taking what I think I got from your brief, that the sales tax on imported crude, manufactured imported crude, at whatever level you take it, is less than the sales tax on Canadian crude?

MR. WHITE: There is no sales tax on either crude.

THE CHAIRMAN: It is on the product?

MR. WHITE: It would fall on the product.

THE CHAIRMAN: And there is no difference as to the source?

MR. WHITE: There is a differential in sales tax calculation. Mr. Cogan has the full details of those five or seven points which we indicated as being, perhaps, the reason for duty. That is one of them, if you would like to talk about that point later.

MR. COGAN: The sales tax is simply a sales tax on imported products, slightly less than the equivalent sales tax on products manufactured in the refinery in this country. The tax is applied on the f.o.b. price of the products and, therefore, does not include the transportation component.

THE CHAIRMAN: Would that be a substantial amount on 200,000 barrels a day?

MR. COGAN: Assuming you are able to maintain the refinery operation, it will be --

THE CHAIRMAN: I cannot hear you.

MR. COGAN: I would say it would have no effect. I am assuming a constant refinery operation, whether you are talking of Canadian crude or imported. To the extent that your operation changes, you might have a little difference; but, fundamentally, and certainly in the range of the types of dollars you have been speaking of, for tax purposes, it is small.

THE CHAIRMAN: There would not be a lot in it, from the point of view of revenue to the country?

MR. COGAN: Oh, no.

THE CHAIRMAN: Now, Mr. White, in your view and in that of your colleagues, does the United States of America exercise any real control over the oil industry in the United States?

MR. WHITE: Does the United States exercise control over the US industry?

THE CHAIRMAN: Yes.

MR. WHITE: Oh, I have no means of answering that question. You are getting into things -- I don't know how to answer that question.

THE CHAIRMAN: Would you say that that

control, whatever it may be, is more than is exercised in Canada?

MR. WHITE: Our feeling is that there is considerably more control, particularly if you are willing to add the FPC and the gas industry sections into the oil and gas industries field. I would say there is more control in the United States, governmentally speaking.

THE CHAIRMAN: But the oil industry prosper in the United States?

MR. WHITE: It depends on who you are listening to, but the answer is "yes".

THE CHAIRMAN: And they have quotas?

MR. WHITE: They have quotas.

THE CHAIRMAN: So, really, from the point of view of the prosperity of the industry, that is not too serious a prospect to think of in terms of imposition of a quota, is it?

MR. WHITE: Someone told me just recently that the final chapter of that story is yet to be written, Mr. Chairman. On top of that, I think the figures given a minute ago of 13% imports to domestic production -- here we are looking at a much larger percentage.

THE CHAIRMAN: That is right.

MR. WHITE: But the quota has just been applied and you have yet to see some side and following reactions which may be rather detrimental.

THE CHAIRMAN: In your view, from the point of view of the industry, is there any serious danger that the so-called Independents in the industry in Canada would be able to remain in business, unless a far larger percentage of production is allowed or obtained?

MR. WHITE: No. We feel that there exists, in the hands of industry now, the ability to maintain something of the order of 60% of the oil. - we have given the range as 50 to 70, but let us say 60% of oil production producibility, which is, historically, about as high as it has been, when the industry was functioning, which is not a bad ratio.

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THE CHAIRMAN: Yes, but you are very careful, Mr. White, to use the term "where we have been heretofore in Canada", and that is why I asked you for information as to the other percentages in other countries. I was wondering whether we are low.

MR. WHITE: We may be low, but I think there is evidence, all through the piece, that we are still driving right down the road in quite a handsome fashion.

Mr. Frawley might like to tell us about the results of Crown sales, because there seems to be no shortage of money for Crown sales, and also in the Western Canadian basin. I think there is fifty million more acres in leases or some other form of land holdings than there was a year ago. The evidence is not there that we are in deep trouble yet. Of course, it could be answered that we see deep trouble down the road a little; but I don't know just where we go from there.

THE CHAIRMAN: In other words, there is a certain amount of uncertainty about the future?

MR. WHITE: Oh, well, there certainly is.

THE CHAIRMAN: Do you not think that uncertainty also applies to the future course of legislation or import quotas or other government acts of that kind in the United States, which is

our primary source of export?

MR. WHITE: There is no question that uncertainty exists there. No one can forecast that.

THE CHAIRMAN: Are you waiting for me?

MR. WHITE: I think, perhaps, I should, at that point.

THE CHAIRMAN: I beg your pardon?

MR. WHITE: My associate was suggesting that the whole system of controls is very difficult to handle on a voluntary basis. Voluntary control is a temporary arrangement and no one seems to want a mandatory control, and no one knows what is going to emerge.

I think that is about all I have to say on the subject of control.

THE CHAIRMAN: If the Montreal market were added in an amount of, let us say, 200,000 barrels per day, and the maximum export as anticipated and forecast by you was 50,000 barrels a day, which you feel we would lose on export by shipping Canadian crude to Montreal, would that total Canadian production in any way put Canada's oil reserve position in jeopardy?

MR. WHITE: As regards the number of years' supply?

THE CHAIRMAN: Yes.

MR. WHITE: I don't think so.

THE CHAIRMAN: So there is no problem on that score?

MR. WHITE: It is not a question of shortage of reserves.

THE CHAIRMAN: The fact is that at the present time, however, any oil company, no matter from what part of the world it might come, is free to enter in and build a refinery in the Montreal area and import foreign crude.

That is correct, is it?

MR. WHITE: That is correct. About the only thing they can't do is build a pipe line.

THE CHAIRMAN: So that if Canadian crude were to be taken to Montreal, even if it were on an economic basis, today, it would still face the threat of foreign competition at some time in the future?

MR. WHITE: Depending on the ground rules you are willing to add to it. I think it is true that free entry of foreign crude into Montreal might mean that.

THE CHAIRMAN: Well, if they started to dump crude in the Middle East and somebody got a long-term contract for supply, and tanker rates were all right, you could build a refinery in Montreal, could you not?

MR. WHITE: I think that has been a good part of our testimony, that we think the

Canadian crude oil is basically uncompetitive in Montreal and that you would require some sort of artificial support for it.

THE CHAIRMAN: Do you, in your refining operations in Montreal, make a better net return out of your manufacturing and marketing of foreign crude than you do out of Canadian crude?

MR. WHITE: Well, there are widely varying positions, depending on competition and other things. Mr. Frawley attempted to do something with the tank waggon prices the other day, and it is difficult to do so unless you take a complete balance of all your operations. We hunted around and got some figures on the Montreal operation and, actually, it is Montreal plus the Maritimes, because both those areas are served by foreign crude, and last year (which was a good year) we made a net return of 7.3 per cent of our capital employed.

Now, I have in mind, if you so wish, leaving the skeleton of that calculation with you and we would be glad to develop it further with you, as Chairman of the Commission. I do not think we would like to discuss the details because there are some competitive pieces.

The total company earnings last year, as you will see from the annual report, netted back, I think, just at 10 per cent of capital employed.

That includes pipe line, tankers, petrochemicals and everything else.

So there is grave doubt, in my mind, that the Montreal refinery has very much to play with in the way of excess profits over costs.

THE CHAIRMAN: Would you have any objection to filing that information with the Chairman of the Commission?

MR. WHITE: Very glad to, Mr. Chairman.

THE CHAIRMAN: Thank you very much. Just one other question:

Do you feel, as an organization, that the so-called Athabaska oil sands will eventually be developed on an economic basis?

MR. WHITE: It is a very hard question to answer. It is a question in point of time. There is a definitely solid answer right behind me: just awaiting a higher price of oil, and with improved technology, I am sure it will come through. I would say, ultimately, yes.

When I gave you the answer that we were not short of reserves, my friends tell me as long as we maintain a reasonable discovery rate but, if you couple the Athabaska tar sands and realize that a shortage of materials dries up the price, I think you could say we have plenty of hydrocarbons in the area.

THE CHAIRMAN: In other words, you are

not qualifying your previous answer to my question?

MR. WHITE: That is a difficult question. You cannot leave that discovery out altogether.

THE CHAIRMAN: With the increased sales of Canadian crude, you have more funds to put back into exploration, and unless something goes wrong completely with your proportion of good wells in your exploration, related to the future, as it has been in the past, then you could hardly say you could not make the necessary discoveries, is that right?

MR. WHITE: Mr. Chairman, I apologize for getting too cagey. My whole answer is that we have plenty of oil reserves here.

THE CHAIRMAN: Thank you. That is what I want. Thank you very much.

Dr. Hardy?

MR. COMMISSIONER HARDY: Mr. Chairman, I would like to ask Mr. White one or two questions: Mr. White, I understand that in some industries, authorities claim that the anti-trust legislation in the United States exerts a greater degree of control over the international oil industry than it exerts over the petroleum industry within the United States, the reason for that being that the legislation has given the States a degree of control that interferes with the internal operation of their anti-trust legislation.

As an example, the Texas Railway Commission has certain powers that interfere with the normal operations of the anti-trust legislation.

I understand that Standard of New Jersey, in 1942, signed a decree that they would not violate the U.S. anti-trust laws in their international operations. Now, if that is correct, would that policy in any way interfere with Imperial Oil signing a voluntary agreement to take or conform to the situation that would exist if the Montreal market for petroleum was dedicated to the Canadian-produced industry?

MR. WHITE: That is a question that has a lot of horns on it, but let me start off by saying that if the Canadian Government (and I think it would have to be the Canadian Government) said, in effect, "We want to utilize our natural resources in Montreal," and did the necessary things to make it possible to get the oil there, there is no question but that Imperial Oil would fall in with the Government's requirements and do what was necessary to see that these things are carried out.

Now, if you begin to drag me into the various side effects in the U.S., I just can't answer your question; but I think the first part of my answer is a complete answer.

MR. COMMISSIONER HARDY: The Canadian

Government might want to accomplish that in one of several ways: they might do it by regulation or they might ask the cooperation of the industry, and my question was, actually, if you were asked for cooperation, would you be able to do it, within the realm ---

MR. WHITE: I would think so, unless it was unreasonable cooperation.

I don't think our company should take any unnecessary risk in signing a throughput agreement unless there are some other elements to the picture.

MR. COMMISSIONER HARDY: Well, I had my own answers figured out to this before, but probably not as good as yours, Mr. White. However, from what I understand of the United States anti-trust legislation, I would think that possibly you could enter into an agreement, if you wanted to do so, providing that the facts that Mr. Brown and his group have presented are correct, and it is being claimed they could deliver oil competitively to Montreal.

But, under your own analysis, my understanding of the situation is that perhaps you could not, because you then would be tending to increase the price to the consumer. Is that not the general intent of the U.S. anti-trust legislation, to prevent agreements that would have the effect of increasing the price to the consumer?

MR. WHITE: I am sure that is one of them.

You are getting me into pretty deep water when you want to discuss anti-trust laws in the U.S. and what they do or do not require, but our analysis of the Montreal situation is that it requires government action. Now, what type of government action will have to be decided and, if the Canadian government embarks on a course that involves participation, certainly we will have to face anti-trust laws of our own, and it is hard for me to give an answer to your question except that we will follow the Government's orders.

MR. COMMISSIONER HARDY: Another way of looking at it is that you could probably pick out some legal gimmick by which you could avoid or apparently transgress U.S. anti-trust laws.

MR. WHITE: Mr. Hardy, you are away ahead of me.

MR. COMMISSIONER HARDY: Thank you very much. The forecasts or solutions that both Shell and Imperial have presented as being factors that will generally correct the market situation in the industry, that is, the increase in the Ontario market and also an increase in the market in the Puget Sound area, as I understand it, you have made an assumption that the international price situation is not going to change substantially within the next immediate few years, is that so, when you said

you felt that would correct the situation?

MR. WHITE: I don't think that policy is implicit. I do think that certain factors will level off prices and, if the international price goes up, probably our price will go up.

MR. COMMISSIONER HARDY: Is it not more likely to go down?

MR. WHITE: Well, you are the best man to forecast prices. I don't know.

MR. COMMISSIONER HARDY: Are there not some people who are writing articles these days, suggesting that they are bound to go down?

MR. WHITE: I am sure there are, more writing articles that it is bound to go down than there are that it is bound to go up; but I still don't believe the writers when they touch on such matters.

MR. COMMISSIONER HARDY: But if there was a major change in the price structure, if factors are taking place, eventually they might affect the build-up of price in the posted areas. If you have a substantial reduction in the world price, then your forecast of the market situation in Ontario and the Puget Sound area -- you would want to revise this slightly, no doubt.

MR. WHITE: Well, we would have to reduce our price; we would make less money. Certainly if we were in Montreal we would be in great trouble. That is why we like to go to the markets that are the least trouble and closest to us.

MR. COMMISSIONER HARDY: Isn't there a distinct difference there between the operations where you operate them on an integrated basis and the operations where you would not be operating on an integrated basis? In other words, if you are feeding oil into the Montreal market and the world price bounced up and down, then you would have to absorb that in your operation, but if the Canadian producer was selling into the Puget Sound area, he is in a little more difficult position, isn't he?

MR. WHITE: I don't think so. That is where the ultimate effect is, because we know from experience that the other phases of transportation, refining and marketing are generally pretty thin. But the producer is the one that has to take the

swing, and it makes no difference whether it is an integrated producer or an independent.

MR. COMMISSIONER HARDY: But you explained to us that if there is a major change in price structure, that you have large capital investment in the facilities, pipelines and so on, there is definitely a financial incentive or there is an additional cushion in there which prevents you economically from changing to a new source of crude.

MR. WHITE: I don't think that is the right word. You normally utilize the facility that you are committed to in effect and pay those charges. I don't quite understand your question really.

MR. COMMISSIONER HARDY: What I am coming to is this: if you are carrying oil into the Vancouver area on an integrated operation and then the price of Venezuelan oil should be drastically cut, before you can change over to that supply you have to correct for the cost of your investment and alter your Canadian facilities; but the outlet that is delivering oil only to an American refinery, he is cut off just like that unless he can cut his price.

MR. WHITE: I am afraid I don't understand your question. You are saying we will have to drive down the road and take our crude and refine it and so on ourselves, and somewhere along the line we are having competition from the Venezuelan crude which has now been cut in price.

MR. COMMISSIONER HARDY: Crude competition, not product competition.

MR. WHITE: The crude competition results in product competition in the area, and someplace along the line somebody has to drop his price because the marketer cannot afford to pay the price to the producer. So I think the effect would be very much the same.

MR. COMMISSIONER HARDY: I still don't see, Mr. White, though -- you will have the products competition all right, but before it is economic for you to change over to a new source of crude you have to figure how you are going to finance the investments you still have with your existing source of crude.

MR. WHITE: Oh, yes, I think that is certainly true, and a complete analogy to the Montreal pipeline. As Mr. Cogan said, if you trade in an old car for a new one you expect to get something for the old car.

MR. COMMISSIONER HARDY: Yes. Well, on that basis, doesn't the industry in Canada receive the maximum amount of protection they can have other than by government control through, I may say, pipeline facilities to Montreal, for example?

MR. WHITE: I don't again quite get it. We have pipeline facilities to the other markets now, and we are saying we would rather see the other markets

first. That is how the oil is pushed out of the Albertan plains.

MR. COMMISSIONER HARDY: I see you don't approve of my economics.

MR. COMMISSIONER HOWLAND: While we are on this high level of discussion, Mr. White, I have gained the impression that the Canadian oil industry is, at the moment, putting aside its swaddling clothes and has got to meet the main stream of United States or foreign crudes if it is going to grow into anything like a young man.

MR. WHITE: I think we are a little past that stage. We are meeting that now initially in Sarnia, and five years ago.

MR. COMMISSIONER HOWLAND: But at the present time the growth is being pushed back particularly at points like Washington, for instance, to Montreal. These are the markets which are vital to our growth.

MR. WHITE: Yes, we consider them to be vital, but we are talking about Puget Sound. But the so-called pushing back is, we feel, a temporary phenomena.

MR. COMMISSIONER HOWLAND: Well, if I may, I will follow that through with you. Let us look at page 24. I would like first to have a look at that table, the Minimum Case. Why does the United States growth there appear so much lower than the

rate of growth in Canada?

MR. WHITE: Where are you going to start, Mr. Howland?

MR. COMMISSIONER HOWLAND: Take 1957 in Canada, and 1958, 1959. There is a rather good progressive growth. The export market, however, doesn't seem to follow that pattern, and it is 1961 before you get above the 1957 figure.

MR. WHITE: Well, you must realize that 1957 was an inflated year because the first part of the year was affected by Suez. I don't think 1957 was the normal growth figure, so that makes the whole comparison that much worse.

MR. COMMISSIONER HOWLAND: Y u are saying that from 1958, 1959 and 1960 there is a normal growth without any adverse factors affecting the entry of Canadian crude in that market.

MR. WHITE: We hope that the quota position will be no different and we will not be restricted by quotas and we are back to the same situation.

MR. COMMISSIONER HOWLAND: Will you go to page 31. In the second column, export, you have a very different growth. This is the intermediate policy which you suggest and you mention these positive efforts to enter that market. I notice that you have a program for a fairly substantial growth in the United States market. I want to know what

these positive efforts were for the United States market.

MR. WHITE: Well, the figures there represent almost taking over the Puget Sound market on the basis of the economic supply. It presupposes, I guess, some action on the part of the Canadian Government straightening out the general relations with this country, and also reflects our confidence in Canadian crude in this market.

MR. COMMISSIONER HOWLAND: Am I correct in taking that total of 812,000 barrels per day? It is roughly 60% of our producibility, as you forecast it.

MR. WHITE: Yes, that is almost exactly right.

MR. COMMISSIONER HOWLAND: You think it is a satisfactory position, because you suggest we follow the intermediate policy, as against the position that might get us into a rather higher percentage of production.

MR. WHITE: Yes, we are fearful of the disadvantage associated with that other case.

MR. COMMISSIONER HOWLAND: Mr. White, you gave us some good figures on page 26. I am sure that you have given us many of the figures I would like to get from you, but they have been given at somewhat different times and junctures. I wonder whether you have the figures, or could

you get them for us, the figures showing the comparison of current prices for imported crudes, for Canadian crude at Montreal, as you have here. I wonder if you could give us the same calculation for Puget Sound, San Francisco, Chicago, Toledo and other points you suggest we could enter into the United States.

MR. WHITE: You wish to note this?

MR. COMMISSIONER HOWLAND: Well, possibly you might just give them to us as an exhibit.

MR. WHITE: We would be happy to do that, yes. We have that information, whatever place you wish.

MR. COMMISSIONER HOWLAND: I would think Washington, Puget Sound, Toledo, Chicago.

MR. WHITE: Chicago would be hypothetical.

MR. COMMISSIONER HOWLAND: At least we would have the benefit of somebody who knows his business.

MR. WHITE: We will give them to the secretary.

MR. COMMISSIONER HOWLAND: Thank you very much. I think that is all I really wanted to discuss with you, except just this one other impression that I have, and I would like you to correct it if it is wrong. There is some suggestion here that, listening to the comparative feature of Venezuela and the Middle East, the realities are that the Canadian industry has got to get under some umbrella, and whether it is a Canadian one or a United States continental one or not seems to be of some debate. But would you agree that there seems to be some slight umbrella?

MR. WHITE: Well, it is most difficult. We don't know what the future holds, but certainly if we go under an umbrella we want a good reason for it. When you hear of all these competitive costs,

you can draw the conclusion that on the periphery Canadian crude can dry up and go someplace. But I wouldn't say it would be impossible that we should have some protection of some kind.

MR. COMMISSIONER HOWLAND: One shouldn't take too seriously, then, this question of cost of replacement, pro rationing and so on. I have listened with a great deal of attention now, and I have a general impression that the replacement cost of Alberta crude is not as high as in the United States, but it is substantially higher than Venezuela and the Middle East. If that is so, is it some sort of sun shade necessary, if the gloves are taken off?

MR. WHITE: I can't argue the point with you. I hate to talk about a sun shade, but you may have to prevent getting a big burn. At the moment the industry seems to get along without one, even in Toronto, let alone Montreal.

MR. COMMISSIONER BRITNELL: Mr. White, most of the larger questions of a policy have been covered either by my colleagues or counsel, and it only leaves me with a few points arising out of your submission. I would like a little further explanation and explore a little further. Thus, for instance, at the bottom of page 24 of your submission, the first sentence there under the table:

"The domestic requirements are assumed to return

to the normal trend growth, with the increases in domestic demand from British Columbia to Ontario covered with Canadian crude". I haven't any difficulty with that. The next sentence: "The export estimates assume that with return to normal demand, United States refiners using Canadian crude will fully utilize their import quotas and that these quotas will be adjusted thereafter to meet the normal growth in United States market demand". I do have a little trouble following that assumption with respect to export markets. I would very much like to be able to believe both of those assumptions. However, past, present and, to some extent, even prospective future commercial policy of the United States hasn't been and isn't entirely reassuring, and Mr. Sandlin of Woodley Canadian seems to be a little anxious of what might happen even in the mid-western markets, and I wondered whether you could give me some reasons, some further reasons for accepting those assumptions. I am a very willing convert; I would like to believe that, but I am just a little troubled.

MR. WHITE: I think Mr. Cogan will answer.

MR. COGAN: Generally speaking, on the question of import discussions, the general reaction really on the part of those favoring it seemed to be from the press announcement relating to the percentage of the country's requirements, and that a

percentage should be established for exports. The figures given of requirements and demand would indicate in all probability that there would have to be a large percentage in imports, but for the four or five-year period we are dealing with here it is purely an assumption that the percentage of US imports would remain reasonably constant.

MR. COMMISSIONER HOWLAND: I can go down the road, as I went down the road with Shell the other day, for twenty years, but it is the immediate five or ten-year picture that bothers me. Now, on page 27 your brief speaks of a reasonable prospect that over the years nearer and more attractive markets for western and Canadian oil would sharply increase. Now, what is the reason for believing that they would, in view of the fact -- I had better not say the fact -- of the apparent long-run as well as short-run advantages which middle-eastern and Venezuelan crude seem to possess, and now I am going from the comparative statistics of reserves and so forth that you gave to the advantages which those areas seem to possess over western Canadian crude and which don't seem to be entirely short-run.

MR. COGAN: We feel that these advantages are important in these peripheral markets. We believe that in a certain portion of the United States -- I am talking primarily of the near-by

areas -- that Canadian crude has a definite advantage over some of these foreign crudes. Therefore some portion of the increase would accrue to Canadian western crude.

MR. COMMISSIONER BRITNELL: You might have to wait some time for that.

MR. COGAN: Well, there has been a lot of speculation on the subject. In the past couple of months there has been very interesting speculation on this subject. What I really feel is that there will be a tendency for supply from the north, east and west, and even possibly from the south, to sort of touch the fringe areas, and Canada is capable of supplying a sizable portion of the United States.

MR. COMMISSIONER BRITNELL: On page 26 -- this is a point of detail and perhaps you may help me on it -- I note in the comparison of current prices for imported crude with Redwater crude there is -- that is to the theoretical price for Canadian crude at Montreal, I should say -- an item second from the bottom on the table at the top of the page:

"Add charge for idle Portland/Montreal pipeline "and terminal, 7¢";

and then on page 37 I note near the bottom of the page the statement under 1:

"For many years, Imperial owned and operated "the Transit and Storage pipeline connecting

"its Sarnia refinery to Mid-Continent trunk "line systems terminating in Ohio. With the "advent of Canadian crude via the Interprovincial "system Transit and Storage was put out of "business".

When this putting out of business of Transit and Storage took place, was an item covering this putting out of business added to the price of Alberta crude laid down in the Ontario market, and if so, how much?

MR. WHITE: No, it was not, Mr. Britnell, but it was considered part of the cost at the time.

MR. COMMISSIONER BRITNELL: I don't quite follow that.

MR. WHITE: We had a figure on what would come out of the extension of Canadian crude into Ontario, and it was obvious -- oh, attractive enough to forget about the line and sell it, and actually pipelines don't have much selling value.

MR. COMMISSIONER BRITNELL: Salvage.

MR. WHITE: Yes.

MR. COMMISSIONER BRITNELL: Would it be right to assume that Imperial and other companies have an interest in the Portland and Montreal pipeline and that this would hardly be a charge to them; you could say that they could ship in about 7¢ below this figure.

MR. WHITE: You are talking about -- no, that isn't quite true, because the people who do

the shipping into Montreal are not the producers. So I think the positions would be identical.

MR. COMMISSIONER BRITNELL: Going over to page 27, why would the proposed Montreal outlet represent a declining factor in the total expanded Canadian crude outlet of the future? Does that refer to the Canadian domestic market or to the Dominion and export market combined?

MR. COGAN: It refers actually to this. If you are dealing with 250,000 barrels, that will be a smaller percentage with increasing volume. We don't believe that rate of expansion and, you might say, saturation is going on in the other areas, we believe that would be higher, and you would have definitely a smaller percentage. If you take today's production, the percentage increase you get there is quite sizeable, and if we are correct in our hopes that the business depression is over -- and some of the figures here indicate that we will have quite a sizeable market -- that percentage rate tied with the Montreal market is not a large percentage. Do I make myself clear?

MR. COMMISSIONER BRITNELL: I think so, yes. On page 29, the last line concerning problems of the pipeline, refers to -- perhaps I had better quote it. "The government could, of course, provide a direct guarantee of the pipeline bonds. If this course were followed and the government underwrote the major risk, it is worth asking whether public sentiment would permit private ownership of the line or whether another link toward government control of the industry would be forged." That sounds a little grim to me, and it also seems to suggest that a good many links have already been forged, and I wondered whether you could tell us about the nature of those existing links that have already

been forged.

MR. WHITE: Perhaps the writer of that paragraph was a little steamed up that day. But you get the idea.

MR. COMMISSIONER BRITNELL: Well, on page 30, about the middle of the page, discussing mandatory quotas, in the next paragraph below C, mandatory quotas, is the sentence: "Establishment of the proper quotas would tend to freeze company positions...." To be quite frank, I don't see at all why a quota system should work out this way. Perhaps I should go on a bit there. I envisage a quota system which would say to your refiners in the Montreal area, if we get to that stage, that 80 or 85 or 90 or 95 or 99% of all the crude used in that area should be Canadian crude. Therefore I don't quite see why it would freeze company positions.

MR. WHITE: If you are going to do it, Mr. Britnell, you should put a quota on 100% in the area. You are thinking of five or maybe six refiners. At that point you have to look at the other people that are in the business, and there are quite a number of them, and some of them are pretty big and they are product importers. Now, theoretically we are all after business, but if you are going to put a quota on them you freeze the industry. If you allow them to over import you will be in

trouble; if they under import, they will be on your doorstep.

MR. COMMISSIONER BRITNELL: But won't they all get the same proportion, even a new entrant into the market?

MR. WHITE: Are you talking about imports or crude and products?

MR. COMMISSIONER BRITNELL: I should have made that clear.

MR. WHITE: The crude side is nothing. You just tell them to take 100% and that will be fine, but they may have to change the nomination. It is the supplementary refined product man who is in difficulty,he has to go outside. Once you get into controls you get into all kinds of controls.

MR. COMMISSIONER BRITNELL: You have to include the others, so there would be no particular problem on crudes; the problem would come with the establishment of quotas on refined products.

MR. WHITE: That is right.

MR. COMMISSIONER BRITNELL: I have just one further question and it is really of a marginal nature, and it refers to page 36 of your discussion on jurisdiction. It reads: "Thus in the present situation the oil industry cannot in practice comply with both Provincial and Federal statutes. Elimination of this overlapping jurisdiction would be most helpful to the oil industry." I wonder if you care

to give the Commission the advantage of any suggestions as to how this conflict or at least the overlapping where there isn't a conflict of jurisdiction might be eliminated.

MR. WHITE: I think you could do it by definition. I would say first of all that the intent of the Canada Pipe Lines Act is to integrate interprovincial or international traffic, and then go on (there are such things as gathering systems and so on in the Province) and try and show that it is not intended to tie in the interprovincial Or international pipeline. It is a question of definition.

THE CHAIRMAN: Mr. White, just to make it clear for the record, the utilization of Canadian crude, even to the saturation point, in the Montreal market would not eliminate the importation of manufactured products into Canada.

MR. WHITE: It would not, except by accident; it would never do it.

THE CHAIRMAN: Mr. Frawley, I know that you have a question.

MR. FRAWLEY: If I might have the indulgence of the Commission.

Mr. White, you show in your pipeline computations on page 26 a pipeline tariff or charge, Canadian, of 60¢, and without delaying you this evening, I wonder if you would be good enough to perhaps

file an Exhibit showing the make-up of that 60¢. The reason I ask is that the Conservation Board representatives have had the benefit of examining the 50.8 and I would like them to look at your 60¢. Would you be able to file something to indicate how you arrive at the 60¢?

MR. WHITE: I don't think so, Mr. Frawley. I will tell you why. It was made up from a series of curves. It required assumptions as to how much is required to finance a pipeline, that is in the way of interest. It is not suitable to submit without considerable discussion.

MR. FRAWLEY: It is not like the Dutton-Williams study that was filed here by Home Oil?

MR. COGAN: I don't know, because we certainly haven't seen that. I say that the impression that we gained from the Dutton-Williams study is that the calculation assumes not only that the bond holders are guaranteed their money but also the equity interest is guaranteed. It sounds as if complete protection of equity is involved, and under the circumstances it is not a commercial pipeline, it is a subsidized pipeline.

In regard to the 60¢, our people made a number of studies, and from those figures we looked at the best position we felt could be remotely considered commercial, and from those calculations we concluded that this figure would give approximately 6% as return

on the total project, and therefore we are very much mystified about that figure.

MR. FRAWLEY: Did you have any construction or pipeline people work it out?

MR. COGAN: Yes.

MR. FRAWLEY: And did you make tariff forecasts?

MR. COGAN: We made estimates, definitely, and we looked at them. Now, I think in the final analysis the question of what a proper figure -- incidentally, you may recall the guarantee that was made -- I think in the final analysis it is based on whether it may be financed on a commercial basis. If you can get somebody to guarantee with positive assurance your money, you can do it with 50%, but, frankly, we have seen nothing that shows that that can be done. So we figure that is the lowest figure from a commercial pipeline viewpoint.

MR. FRAWLEY: To get back to my original question, Mr. White says there isn't anything that could be filed and he would be very glad to discuss it with the Conservation Board engineer.

MR. FRAWLEY: Dr. Britnell referred you to the Transit and Storage pipeline that was put out of business when Interprovincial went down.

MR. WHITE: Yes.

MR. FRAWLEY: There was another investment that had to be scrapped and that was the millions of dollars in docks and storage and tankers utilized to move the oil when Interprovincial went into that extended operation. That loss was never worked out as against the price going into Sarnia, was it?

MR. WHITE: No loss there, Mr. Frawley.

MR. FRAWLEY: What happened?

MR. WHITE: Tankage represented no loss.

MR. FRAWLEY: So you are still carrying on that investment in docks?

MR. WHITE: However, I may say that extending the pipeline was done on the basis of cutting down inventory and it went to build more and more tankage for winter inventory; I mean, it is just put into the system.

MR. FRAWLEY: So you think the Alberta crude has got to carry something for the undepreciated investment in that pipeline?

MR. WHITE: No, but if you are doing something that is of no advantage to the refinery -- it is a matter of putting it where it is needed.

MR. FRAWLEY: You do not see any comparison between that and what happened to the transit and storage line?

MR. WHITE: Not the slightest, because they were an addition.

THE CHAIRMAN: Mr. Frawley, if you have two or three further questions, there might be still one or two other questions by way of a sort of catch-all, and I suggest that if it is convenient we could wait until the morning, Mr. Pattillo.

MR. PATTILLO: It would be quite convenient.

THE CHAIRMAN: Gentlemen, we shall adjourn now until 10 o'clock in the morning and, Mr. White, if you and your colleagues,such as are still here, would be good enough to be present --

MR. WHITE: We will essentially all be here.

THE CHAIRMAN: Then we shall go on at 10 o'clock tomorrow. Thank you.

---Whereupon the hearing adjourned, at 4.40 p.m., until 10 a.m., Wednesday, May 7, 1958.

ROYAL COMMISSION

ON

ENERGY

HEARINGS

HELD AT

CALGARY,

ALTA.

VOLUME No.: 36

DATE: MAY 7 1958

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MR. BORDEN

ANGUS, STONEHOUSE & CO. LTD.
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CORRIGENDUM

VOLUME 36

Page 5076, Line 20.
Change word "equities" to "inequities"

Page 5076, Line 21.
Change word "countries" to "companies"

Page 5082, Line 1.
Change word "created" to "imported"

Page 5084, Line 25.
Change word "enfreightment" to word "affreightment"

Page 5085, Line 26.
Change word "enfreightment" to word "affreightment"

Page 5086, Line 10.
Change word "your" to "our"

Page 5086, Line 11.
Change word "our" to "the"

Page 5088, Line 10.
Change word "agents" to "8-inch"

Page 5089, Line 14.
Delete "Texas" and substitute "Texaco Exploration"

Page 5089, Line 15.
Delete words "today to" and substitute "that they"

Page 5098, Line 13
Insert the word "of" after word "industry"

Page 5113, Line 12.
Change word "Venezuela" to "South America"

Page 5131, Line 24.
Delete the words "plus delivered"

Page 5150, Line 6.
Delete word "picture" after word "real" and substitute word "danger"

Page 5169, Line 2.
Change word "present" to word "prevent"

C O R R I G E N D U M

VOLUME 37

Page 5248, Paragraph 1, Line 10.
The figure 477,000 should read 466,000

Page 5269, Paragraph 2, Line 12.
The figure 195 . should read 1958.

Page 5289, First line of numerical paragraph 2.
The word "complications" should read "implications".

Page 5298, 4th line from bottom.
After the words "include only" and prior to the words "main trunk line", the following has been omitted:
"...main trunk pipe line charges plus line loss allowance and import duty where applicable. The cost of gathering crude oil to the point of entry into the ...".

Page 5298 - This entire page is incorrectly placed in the transcript. It should be numbered page 5299 and page 5299 should be numbered 5298.

Page 5300, Paragraph 1, Line 4.
Following the words "oil pipe lines" and prior to the words "usually operate" the following has been omitted from the transcript: "as compared with gas transmission lines, since crude oil pipe lines...".

Page 5309 - It appears that paragraph 3 under the section Implications of Committing Canadian Crude Oil Reserves to the Montreal Market on page 23 of our brief has been omitted from the transcript. This paragraph, if read, would have been the last paragraph in this section, read by Mr. Campbell prior to Mr. Anderson's reading Appendix E.

VOLUME 38

Page 5433, 4th line from bottom.
The figure 1.36 should read $3.16.

VOLUME 37 Page 5189, Line 28.
Insert word "be" after "would"

Page 5191, Line 25.
Insert "which" after "produce"

Page 5197, Line 21.
Delete "1960" read "1961"

Page 5199, Line 17.
Delete "exploration" read "expansion"

Page 5201, Line 24.
Delete "against" read "a cost"

Page 5202, Line 21.
Delete "to the Commission".

Page 5205, Line 2.
Delete "and in the" and read "in any"

ROYAL COMMISSION

ON

ENERGY

Hearings held at Calgary, commencing Tuesday, April 29, 1958, at 10.00 a.m.

PRESENT:

Mr. H. Borden, C.M.G., Q.C.	-- Chairman
Mr. J.L. Levesque	-- Member
Mr. G.E. Britnell	-- Member
Dr. R.D. Howland	-- Member
Mr. L.J. Ladner, Q.C.	-- Member
Dr. R.M. Hardy	-- Member

COMMISSION COUNSEL:

Mr. A.S. Pattillo, Q.C.

Mr. Miles H. Patterson.

Mr. J.F. Parkinson	-- Secretary to the Commission.
Major N. Lafrance	-- Assistant Secretary to the Commission.

APPEARANCES:

Representing Imperial Oil Limited:

Mr. J. R. White	- President, Director
Mr. J. A. Cogan	- Vice-President, Director
Mr. W. O. Twaits	- Executive Vice-President, Director
Mr. W. D. Mackenzie	- General Manager, Producing Department, Director
Mr. J. K. Jamieson	- Vice-President Director
Mr. J. W. Hamilton, Q.C.	- Director
Mr. R. M. Crockett	- Manager, Economics Department
Mr. F. G. Cottle	- Manager of Transportation and Supply
Mr. J. D. Harvie	- Manager of Producing Economics

APPEARANCES:

Representing National Coal Association, Washington, D.C.:

Robert E. Lee Hall - General Counsel, National Coal Association

Jerome J. McGrath - General Counsel, Fuels Research Council, Inc.

EXHIBITS

No.	Description	Page
CC-7-1	Submission of National Coal Association	5035

Representing McColl-Frontenac Oil Company Limited:

Mr. A. N. Lilley - President

Mr. A.G. Farquharson - Vice-President, Refining

Mr. W. C. Howells - Vice-President, Producing

Mr. D. F. Bentley - General Counsel

EXHIBITS

No.	Description	Page
CC-7-2	Submission of McColl-Frontenac Oil Company Limited	5045

ANGUS, STONEHOUSE & CO. LTD.
TORONTO, ONTARIO

Wednesday,
May 7, 1958.

---On resuming at 10.00 a.m.

---Mr. Commissioner Levesque was not present.

---Mr. Commissioner Ladner was not present.

THE CHAIRMAN: Gentlemen, the Commission will now resume its hearing. Mr. Pattillo?

MR. PATTILLO: Thank you, Mr. Chairman.

Mr. White, I had a few questions which I would like to ask you, directed to a certain phase of the subject which we considered.

Would you agree with me that in so far as the Montreal operations are concerned, as they are presently carried on, the profits that can accrue to the company are limited to the transportation of oil, the refining of it and the marketing of it?

MR. WHITE: Yes, I would agree, Mr. Pattillo.

MR. PATTILLO: Would you agree with me that if the operations at Montreal were changed so that Canadian crude rather than foreign crude was used, the profits that would accrue to the company would be extended so that they would also apply to the producing end of the business?

MR. WHITE: In the short run, yes.

MR. PATTILLO: Now, isn't it true, therefore, that the result would be that the shareholders

of Imperial would benefit from the use of Canadian crude at Montreal rather than foreign crude?

MR. WHITE: Again, in the short run, I would agree.

MR. PATTILLO: Well, then, in adopting the policy that you are adopting of using Canadian crude at Montreal, is that a decision made in the interests of all of the shareholders or of your principal shareholder, Standard of New Jersey?

MR. WHITE: We feel that the decision applies equally to all shareholders, Mr. Pattillo.

MR. PATTILLO: Would you care to expand that?

MR. WHITE: Well, you should go back, I think, to the end results that can be foreseen from the limitations that we feel must be placed on trade to land Canadian crude in Montreal. The reasoning in this, I think,illustrates our feeling that such a line can be built only with some governmental support. In fact, we reasoned ourselves into a position in almost believing it has to be a governmental pipe line.

You have heard all the testimony about the foreign crude laid-down costs. We have also reasoned ourselves into the position where we feel that a protected market has to be supplied.

Going further with that line of reasoning, we arrive at a place where we can see the oil

industry controlled to an extent which would be harmful to the Canadian industry, and that is why I qualified all my agreements to your questions by saying "in the short run".

MR. PATTILLO: Now, you have mentioned this government-owned pipe line. Are you suggesting that if there is a pipe line to Montreal to take Canadian crude that the only way you think it is feasible is that the government builds it, and the government has no assurance that any of the Montreal refineries would ever use it?

MR. WHITE: Well, I think right now, that would be our opinion, Mr. Pattillo.

MR. PATTILLO: So we would know where it would start, but it would really end nowhere.

MR. WHITE: In point of -- proceed.

MR. PATTILLO: Thank you, Mr. White.

MR. WHITE: Thank you, Mr. Pattillo.

I might add that we do not normally expect our shareholders to assume the responsibility of judgment in operating matters, but we felt that was sufficiently important that, at the shareholders' meeting of April 25th, we pointed out what seemed to be an anomaly in Imperial's position, with large shut-in reserves, that we should appear before the Commission and not support a pipe line to Montreal. The shareholders are aware of our position.

MR. COMMISSIONER HOWLAND: Mr. White, when you say "short term", how long are you thinking of?

MR. WHITE: Well, until the pattern of control emerges. Now, I don't know what "short term" is, in that case. You certainly have the time of building the pipe line and a period after that, but how long I couldn't say.

THE CHAIRMAN: You said, Mr. White, that having driven yourselves, in reasoning, to the decision that the only way in which a pipe line could go to Montreal, because of the contention which you make that it is uneconomic, would be through the government, but even so, following on what Mr. Pattillo said, it would be then that the controls of which you speak would have to apply?

MR. WHITE: I think that is proper reasoning.

THE CHAIRMAN: Such as quotas or whatever might be devised in order to assure that the refineries in Montreal did use the Canadian crude that came through the pipe line?

MR. WHITE: Yes.

THE CHAIRMAN: No other basis is possible.

MR. WHITE: I think that is right.

THE CHAIRMAN: If you are driven back to that reasoning.

Would you care to enlarge, Mr. White: if

you would look at page 24 of your brief, in coming to your alternative of an intermediate route involving positive efforts, short of a pipe line to Montreal. I do not think we have on the record just what those positive efforts would be except that, in the case of Shell, they said they said they were going to increase in May their Canadian crude run at Anacordes.

Just what do you mean by these positive efforts and by whom would they be made and who would be involved and how do you reach the 75,000 to 80,000 barrels of Canadian crude per day increased refining in the Great Lakes area?

MR. WHITE: The way that builds up, Mr. Chairman, is something like this (these are government figures). I will give you the year 1959 as illustrative of what we are talking about, and I can give you other years if you wish.

Displacement, Montreal product transfers, 56,000 barrels a day; displacement, production imports, 13,000 barrels per day; displacement, foreign crude, 10,000. The foreign crude, of course, is run in Ontario refineries today.

Now, the balance is a figure of export of 10,000 barrels a day which is in the Puget Sound area, and there is an additional figure of fuel for moving crude of 1,000 barrels a day, totalling 90,000 barrels.

THE CHAIRMAN: Yes, you get up to 90,000.

MR. WHITE: Now, in the ensuing years, the displacement figures are of the same order of magnitude for Montreal transfers, product imports and foreign crude, and the added volumes appear in added exports, and, again, we think, more particularly of Puget Sound.

Now, in these figures, none of the volumes mentioned exceed the quota rights in District 5, nor do they ever exceed the quota rights of the refineries in the Puget Sound area.

The next step, of course, is covered in the introductory statement, I think, that the Canadian Government has the responsibility of coming to an understanding with the United States Government on certain basic trade matters which we would hope would improve prospects of importing crude oi.

THE CHAIRMAN: If that does not occur, would you agree that there is a distinct possibility of losing about 56,000 barrels per day of export to the St. Paul area?

MR. WHITE: I think not, Mr. Chairman. That is a peculiar case where refineries do not have a really economic alternative. That is not going to remain. It will have to be worked out some way. I don't know how, of course.

THE CHAIRMAN: You feel confident that

that export will continue?

MR. WHITE: I think that is the only realistic view you can take of it. The only question is, how much will it increase, because the consumption is going to increase in that area.

THE CHAIRMAN: Right. This increase that you speak of, of 90,000, those are really increases that could result from properly directed moves on the part of industry itself?

MR. WHITE: I believe that is true.

THE CHAIRMAN: Working in cooperation with each other?

MR. WHITE: Working in cooperation with each other, yes. How to get that matter started is a little bit indefinite. I should think the government might have an interest in convening a meeting of industry to discuss ways and means to achieve this end.

THE CHAIRMAN: Thank you very much, sir.

MR. PATTILLO: Which government do you have in mind?

MR. WHITE: I think there is only one government we can consider here, the Federal Government.

MR. FRAWLEY: Mr. Chairman, yesterday at page 4991, you put this question to Mr. White:

"Do you, in your refining operations

"in Montreal, make a better net return out

"of your manufacturing and marketing of "foreign crude than you do out of Canadian "crude?"

Mr. White said, and I am afraid I must read his answer, which is not too long:

"Well, there are widely varying positions, depending on competition and other things. Mr. Frawley attempted to do something with the tank waggon prices the other day, and it is difficult to do so unless you take a complete balance of all your operations. We hunted around and got some figures on the Montreal operation and, actually, it is Montreal plus the Maritimes, because both those areas are served by foreign crude, and last year (which was a good year) we made a net return of 7.3 per cent of our capital employed.

"Now, I have in mind, if you so wish, leaving the skeleton of that calculation with you and we would be glad to develop it further with you, as Chairman of the Commission. I do not think we would like to discuss the details because there are some competitive pieces.

"The total company earnings last year, as you will see from the annual report, netted back, I think, just at 10 per cent

of capital employed. That includes pipe line, tankers, petrochemicals and everything else.

"So there is grave doubt, in my mind, that the Montreal refinery has very much to play with in the way of excess profits over costs.

"The Chairman Would you have any objection to filing that information with the Chairman of the Commission?

"Mr. White: Very glad to, Mr.Chairman."

Now, I would like to suggest, respectfully, Mr. Chairman, that it is important to have a refinery spread at Montreal and the refinery spread at Sarnia, to make that comparison. Superficially at least, comparing the cost of laid-down crude with tank waggon prices, it would appear to be a longer spread up at Montreal than at Clarkson, which was the refinery I was using.

I am only suggesting that I would like the Commission to consider extending its request to Mr. White -- while I did think that your question was quite wide, sir, if I may say so, it was directed to just what I have in mind:

"Do you, in your refining operations in Montreal, make a better net return out of your manufacturing and marketing of foreign crude than you do out of Canadian crude?"

Now, that implied the comparing of Sarnia, we will say, with Montreal, and I would simply like to leave it that way, sir, and, taking the case of B-A, which refines in Montreal and at Clarkson, there would be a comparison there, too; and McColl refines at Montreal and Port Credit.

I think this is a comparison, sir, that is important, and I would like to leave that suggestion.

THE CHAIRMAN: I am sure that Mr.White and his organization will be very glad to give the Chairman of the Commission that information, if and when the Commission feel that it is desirable in the formulation of the recommendations which it may be called upon to make with respect to the question. I am sure I can leave that to Mr. White.

MR. WHITE: I certainly agree with that, Mr. Chairman.

THE CHAIRMAN: I think that meets your point, Mr. Frawley?

MR. FRAWLEY: Yes, indeed, sir.

THE CHAIRMAN: Are there any further questions, Mr. Pattillo?

MR. PATTILLO: No, thank you, Mr. Chairman.

THE CHAIRMAN: Well, Mr. White, the Commission is very grateful to you and your

colleagues for the excellent brief and submission which you have made to it, which obviously has been prepared with a great deal of care and has been most helpful. The fact that you came here to Calgary with so many of your directors and top executives is testimony of the seriousness with which you have applied your organization to help the Commission in its work, and we deeply appreciate what you have done. I want to thank you very much, on behalf of the Commission.

I know that, if and when, at our Toronto hearings, between now and then, if we feel there is further information which would be more proper to put publicly on the record than obtain otherwise from your organization, I am sure you will have no objection to having somebody come at that time, appear before us to give us any supplemental information.

MR. WHITE: We would be pleased to, Mr. Chairman. Now, may I have one or two minutes?

THE CHAIRMAN: Certainly.

MR. WHITE: So many things have been said, over the course of these hearings, that I would like to make a few observations, if I may, and hope it is not a burden to the Commission, because what we are trying to do is give views which we think might contribute to your deliberations. I would like to close our submission with some general remarks.

During the past several days, we have reviewed many facets of a complicated problem, made even more difficult by the technical and logistical factors involved.

The views expressed in our Brief are not directed against specific pipe line project, but are devoted to a consideration of the underlying problem of gaining entry to a new and remote market. The Montreal market is something we have been considering for a long time.

Perhaps for a moment we could wipe out all the outlet figures and look at the problem in its total perspective from a national standpoint.

During 1957 Western Canada oil production averaged some 6 percent higher than during the previous year. However, during the past 6 to 8 months outlet has declined sharply. Nevertheless, during the same period land under lease and reservation (the basic measure of exploration activity) has increased very sharply. Furthermore our estimates show that total crude production this year will be only some 8 percent lower than during 1957; a year when the Suez crisis created unusual demands on the western hemisphere crude oil supplies.

It is under these conditions that we are considering the national aspect of increasing market outlet by some 50 percent, i.e. 500,000 to say 750,000 B/D, through some form of government support.

As a Company we would benefit disproportionately from immediate market outlet but experience has taught us to take a longrange view of all aspects of the problem. Even in a relatively short term we have gone through a cycle of short and oversupply, through premiums for crude and products to discounts which prevail today.

Consequently, in addition to the marginal economics of the Montreal market, we look at the following factors:-

First of all, the petroleum industry cannot isolate itself against the general economic recession that is affecting all industry in Canada to a greater or less degree.

Secondly, no action on the part of industry or Government can increase the demand for refined products and by corollary, the demand for crude oil. We can only displace other sources of crude oil; sources on which Canada has traditionally depended.

Thirdly, and perhaps most important, the oil problem is an integral part of a much larger problem which concerns Canada today. The well being of our economy depends largely on our ability to export material and to import capital for development.

Under these circumstances, it does not appear that the timing is ripe to commit the industry or the nation to the heavy investment and increased rigidity

in our resources system which would be required by the Montreal proposal.

This still may prove to be the only acceptable solution but it should not be decided in the case of oil or other commodities with the total problem of entry into logical U.S. markets is more fully explored. These markets must be explored, not as a matter of short term expediency, but as a matter of long term agreement.

The oil industry and its individual members have a first obligation to make the maximum use of current markets with a full sense of national responsibility. In this as well as the broader aspects we believe the Commission's investigations can be of outstanding value. We appreciate the opportunity of presenting our views and the helpful attitude that has been present during these hearings.

THE CHAIRMAN: Thank you very much indeed, Mr. White. As I stated, the Commission is very grateful to you and your colleagues, organization; we appreciate your coming here and the help which you have been to us.

MR. WHITE: Thank you very much.

MR. PATTILLO: Mr. Chairman, I am going to suggest that we now interrupt for a few moments the line of thought which we have been pursuing. The National Coal Operators' Association, which has its head office, I believe, in Washington, some months

ago suggested that they would like to present their views to this Commission, and their suggestion has been accepted. Mr. Hall, one of the counsel, is here today, as are the members of their group, and because of Mr. Hall's personal commitments it will be impossible for him to be here when we take up the brief in the ordinary course of events, which will be later in these proceedings. We have therefore suggested that if it would be a convenience to Mr. Hall we would be glad to have him come forward with his group, introduce them to the Commission now, and I think he wants to say a few personal words because of the fact that he will not be able to be present at a later time.

THE CHAIRMAN: That is quite satisfactory to the Commission. Is Mr. Hall present?

MR. HALL: Yes.

MR. PATTILLO: I think, Mr. Chairman, where we have the brief, written brief, before us, that on this first appearance of any representative of the Association the brief should be filed, and I am suggesting that it be filed CC-7-1.

MR. HALL: Mr. Pattillo, that will be done, and I would like to ask, if I may, your advice on whether copies should be made available in general or wait until Friday when the presentation is made.

MR. PATTILLO: Once it is filed it can

become public property. I thought, because of some commitments you might have made, that that is what we should do to relieve you of any embarrassment.

MR. HALL: Fine. That will be entirely satisfactory.

---EXHIBIT NO. CC-7-1: Submission of National Coal Association.

Submission of

NATIONAL COAL ASSOCIATION

APPEARANCES:

Robert E. Lee Hall - General Counsel, National Coal Association

Jerome J. McGrath - General Counsel, Fuels Research Council, Inc.

MR. HALL: My name is Robert E. Lee Hall, and I am general counsel of the National Coal Association. The NCA is the trade organization of the bituminous coal mine owners and operators of the U.S. representing approximately two-thirds of the commercially produced bituminous coal in our country.

I am also general counsel of the Bituminous Coal Institute, secretary of Fuels Research Council, and vice-chairman of the Mineral and Natural Resources Section of the American Bar Association.

I appeared before this Commission on the opening day here in Calgary on February 3rd and asked permission to present our views on some of the problems under consideration pursuant to the terms of reference under which you operate. After an exchange of correspondence we were advised that our appearance was scheduled here on Wednesday, May 7th. Our brief has been duly filed and, I understand, duly received by the Commission. If appropriate, although not in toto today, I would like to file our statement for the record. Our original

plan was to make a tripartite "team" presentation whereby I would outline the basis of our participation in these proceedings and two exports in U.S. Federal Power Commission proceedings would cover our experience with problems relating to rate-making, conservation and infirmities in the Natural Gas Act.

However, on arrival Monday in Calgary, I was advised that your crowded docket made it necessary to schedule us on Friday, May 9th. Unfortunately, important prior commitments in the U.S. on that date make it impossible for me to remain over and carry out our plan for an orderly "team" presentation. This problem was discussed with your staff and an arrangement was made for me to make a brief appearance today to explain our aims and purposes in these hearings. For purposes of emphasis, I wish to acknowledge that I agreed to be brief, very brief today, even at the expense of by-passing some things I might otherwise want to say, and I intend to honor this "gentleman's agreement" as to brevity but not without expressing appreciation for this opportunity to rearrange the order of our presentation due to the exigencies of the situation.

On Friday you will hear from an outstanding rate expert, Mr. Melwood W. Van Scoyoc, who has had sixteen years of experience as a member of the staff of the Federal Power Commission and who now,

as a public utility consultant, is an acknowledged expert in the mysterious lore of the public utility rate-making processes of our regulatory agency governing interstate natural gas pipelines. The other member of our team will be Jerome J. McGrath, principal trial counsel for the coal, railroad and labor intervenors in Federal Power Commission proceedings. Mr. McGrath will cover points relating to conservation, interruptible sales of natural gas to industry and certain infirmities in the Natural Gas Act. The composite views to be expressed in our tripartite presentations have the endorsement of the NCA, FRC, ANI and the UMWA.

It will be my purpose today briefly to outline the basis of our participation in these proceedings by defining the purpose of our appearance, and identifying our interest therein.

The vital interest of the United States bituminous coal industry in all aspects of natural gas competition is, of course, common knowledge in the States and, perhaps, in Canada as well. Unfortunately, however, the reasons for this necessary interest and concern are neither universally appreciated nor fully understood. The many competitive advantages enjoyed by the natural gas industry are, for the most part, the product of shortsighted legislation enacted (1938) without any serious attempt to consider the prospective impact of this new fuel competitor upon other fuel industries

or upon our available fuel resources. By its very nature, natural gas has characteristics which probably require the vestiture of natural gas companies with some monopoly rights and privileges. However, this is not to say that this can only be done at the expense of competing fuels and without proper regard for the necessity of preserving the free competitive enterprise system.

Our free enterprise coal industry has suffered enormous losses because of the competitive advantages casually bestowed upon the infant natural gas industry by the Congress in 1938. Your nation now stands at the same threshold of our 1938 lost opportunity. Fortunately, your Government, through the extensive enquiry of the Royal Commission on Energy, is wisely seeking all possible pertinent facts prior to final establishment of a Canadian network of natural gas pipelines for domestic consumption and prior to committing Canadian natural gas reserves to any unwise foreign use. The folly of our extravagant expansion and wasteful use of natural gas is demonstrated in our reserve gas supply situation. The life index of American natural gas reserves has fallen each year for the last twelve years and now stands at only 21.4 years' supply based upon present rates of consumption. This is obviously below a peril point from the overall public interest point of view.

It is our purpose to bring to you today and Friday the benefit of the United States coal industry's twenty-year experience under the Natural Gas Act in the belief that the Canadian people can, and will, profit from our experience.

We have an immense stake in any policy recommendations which may be made by your Commission whether it affects the disposition of natural gas in Canada or natural gas for export purposes. It is a matter of public record that we have participated in recent Federal Power Commission proceedings as opposition intervenors with respect to the proposed Canadian export of natural gas to Midwestern Gas Transmission Company. The opposition intervenors included National Coal Association, Fuels Research Council, Inc., United Mine Workers of America, Maher Coal Bureau, Anthracite Institute, Chesapeake & Ohio Railway Company, Midwestern Coal Producers Institute, Truax-Traer Coal Company, Baukol-Noonan, Inc., and Dakota Collieries, Inc. The proceedings have taken up 143 hearing days covered by 21,074 pages of testimony and 789 exhibits. In the light of this formidable record I hasten to assure you in advance of our presentation on Friday it will not be our purpose to retry or argue again the coal case on export! The Federal Power Commission record is available to this

Commission -- our only suggestion is that the coal testimony in the Federal Power Commission proceeding will make interesting and useful reading for Commission members and Staff. I have with me a sufficient number of copies of our Federal Power Commission brief on Canadian gas for each Commission member and the Staff if you are interested in this phase of the export question.

Our principal concern therefore, is centered around your prospective policy recommendations in the energy field. What you do may have a profound effect upon our interests in the U.S. -- and may vitally affect our substantial interests in Canada.

Canada and the bituminous coal industry of the United States have long had a mutually profitable relationship.

The advent of natural gas into coal's traditional markets in C nada should cause deep concern to thousands who see their employment and their future threatened.

Canadians have purchased coal from the United States out of hard economic sense. They needed a reliable, dependable, economic fuel. United States coal met this need and continues to meet it. It has powered Canadian industry and warmed Canadian homes through generations of Canadian progress. This need is not over as indicated in

the recent Gordon Report where in it is stated that a gap in the energy supply will open in the future as supplies of oil and gas disappear. Coal will again be expected to fill this gap.

Canada will continue to need coal -- need it far more than, in her present preoccupation with the possibilities of natural gas, she may now realize.

We believe that the continued health and welfare -- the essential vitality -- of the United States coal industry is a matter of utmost importance to both your nation and ours. Any steps affecting the present balance should be weighed carefully before legislating in the natural resource field.

As representatives of United States coal interests, we are naturally concerned by the threatened loss of important markets in Canada but we do not appear before this Commission to argue that it has a duty, as such, to prevent threatened injury to the coal producers of the United States. We do believe, however, that it is in Canada's own self-interest to preserve a continued, dependable, reliable source of coal from the nearest and most economical location -- the United States. Moreover, we believe that avoidance of some of the mistakes we have observed in the operation of our Natural Gas Act can serve to guide your Commission in the formulation of the recommendations it will make in the energy field.

To this end, we have gratefully accepted the invitation extended across the border and are participating in the hearings today and on Friday.

Conclusion: These are the "reasons" for our decision to participate here. We sincerely believe that our experience with an infant industry grown overnight into maturity of giant proportions is relevant to your inquiry. As I said earlier, "You stand at the threshold of your lost opportunity". It will be the purpose of our team on Friday to demonstrate that you have the opportunity to provide for the general welfare of your nation by establishing a better balance in your fuel economy than has been the product of our legislation in the energy field.

I promised to be brief. I trust that in concluding now, I have fulfilled that promise and not overstayed my time.

I wish to thank the Commission Staff and the members of the Commission for their generosity in permitting me this brief hour up on the stage.

THE CHAIRMAN: Thank you very much, Mr. Hall. The Commission and Staff regret very much the inconvenience to which you and your associates have been put by this unavoidable rescheduling of your time before the Commission. I am sure you

appreciate it. I am sorry you cannot be here on Friday, but we understand. We know, however, that with Mr. McGrath the members of your Commission will be in good hands.

MR. HALL: I thank you for your courtesy. I will miss being here on Friday for two reasons: I would wish to participate as a team, and I hate to leave your beautiful and wonderful country.

---A short recess.

THE CHAIRMAN: Gentlemen, the Commission will now resume its hearing. Mr. Pattillo?

MR. PATTILLO: Thank you, Mr. Chairman.

Submission of

McCOLL-FRONTENAC OIL COMPANY LIMITED

APPEARANCES:

Mr. A.N. Lilley	-	President
Mr. A.G. Farquharson	-	Vice-President, Refining
Mr. W.C. Howells	-	Vice-President, Producing
Mr. D.F. Bentley	-	General Counsel

MR. PATTILLO: Mr. Chairman, we are now going to receive the Submission of McColl-Frontenac. We have their brief filed which I suggest be marked CC-7-2. The list of the personnel of the company appearing has been submitted to the Commissioners, and I will ask Mr. Lilley, the president of the company, to introduce the members of his group to you.

MR. LILLEY: Thank you, Mr. Pattillo.

Mr. Chairman and members of the Royal Commission on Energy, as president of McColl-Frontenac Limited, I wish to thank you for your invitation to appear here today. I am accompanied by, on my right, Mr. A.G. Farquharson, vice-president and a director of the company, Refining, and by Mr. W.C. Howells, vice-president, Producing, and on my left Mr. D.F. Bentley, general counsel for the company.

Our Submission, which is addressed to

two subjects, will be read by Mr. Howells, who is our resident vice-president in Calgary.

THE CHAIRMAN: Thank you, Mr. Lilley.

Mr. Howells, will you proceed, please?

MR. HOWELLS: The following submission, presented at the invitation of the Royal Energy Commission, is addressed to two subjects: proposals for the extension of pipeline facilities to carry crude oil from Western Canada to Montreal, and proposals for the creation of an Energy Board.

1 -- Recommendations: The recommendations of McColl-Frontenac are:

1. That it would be imprudent at this time to decide upon construction of a pipeline to carry Canadian crude oil to Montreal as a means of correcting the present difficulties of Alberta crude oil producers. We believe that these difficulties, which are serious at the present time, are of short-term character. In our opinion, Alberta crude will find substantial and growing outlets in natural markets which are less distant than Montreal. Further, we are concerned that if a large-scale investment were made in a pipeline to Montreal, the steps necessary to protect such investment under changing conditions would imperil the flexibility and efficiency of the petroleum industry, and could increase unnecessarily the cost of petroleum products to consumers in certain areas of Eastern Canada.

2. That the Canadian national interest requires no new governmental functions pertaining to the petroleum industry, and that establishing a National Energy Board would encourage the encroachment of political and sectional considerations upon economic factors in regard to the industry.

In reviewing these problems, McColl-Frontenac has started from the premise that the petroleum industry has a responsibility to do its full part in the continuing development of the Canadian economy as a whole. While our recommendations are negative in form, it is our opinion that they are positive and constructive in substance. Governmental intervention of various kinds often appears to be the most direct way of achieving certain objectives. But it is our opinion that increased governmental involvement would tend to weaken rather than to strengthen the petroleum industry as well as the contribution it can make to the economic growth of the country. We believe that the record of the petroleum industry in Canada during the past ten years illustrates that it can operate most capably under the guidance of private initiative.

II - McColl-Frontenac's Position in the Industry: Our Company is one of the larger units of the Canadian petroleum industry, particularly in regard to refining and marketing activities. We have been active in the petroleum business in Canada as a chartered corporation since 1927. Our predecessor companies were in operation well before the end of the 19th Century.

McColl-Frontenac currently sells petroleum products in all Provinces except Newfoundland.

During 1957 our sales of petroleum products amounted to approximately 76,500 barrels daily. We operate refineries at Montreal, Port Credit, and Edmonton, with crude runs to stills averaging 81,200 barrels daily in 1957.

In addition, we have producing interests in Western Canada. In 1957 our Canadian crude oil production was about 6,100 barrels daily. The Texas Company, which owns approximately 65% of McColl-Frontenac's outstanding common shares, has substantial other producing interests in Western Canada, mainly in Alberta, which accounted for about 35,600 barrels of daily crude oil production in 1957.

McColl-Frontenac has an 18% interest in the Portland-Montreal crude oil pipeline system, with a capacity of 253,000 barrels daily, and a 33 1/3% interest in the Trans-Northern pipeline, with 65,000 barrels daily capacity, which extends from Montreal to Toronto, Hamilton, and Ottawa.

III -- The Growth of Canada's Petroleum Industry: In order to provide historical perspective, we present in the immediately following pages a series of charts, showing broad outlines of the industry in 1930, 1940, 1950, and 1957. The upper charts, for the respective years, show the changing pattern of petroleum supply. The lower charts show the growth and geographic distribution of petroleum demand and refinery runs. The data reflected

in these charts will be found in Exhibits A-1 and A-2 respectively, of the brief.

From these charts three points in particular become apparent:

1. Especially in recent years, there has been very rapid growth in Canadian demand for petroleum products. In 1940 domestic petroleum demand in the whole of Canada amounted to 161,000 barrels daily. By 1950 it had more than doubled, to 370,000 barrels daily, and in the following seven years was again about doubled, reaching 738,000 barrels daily. The increase in this latter period was at an average rate of 10.4% annually. (In the United States during the same period domestic petroleum demand was increasing at a rate of 4.4% annually.)

2. Particularly in 1950-57, there was rapid growth in demand and in refinery runs in the areas of Canada to the west of the Province of Quebec. Demand in this area increased from 243,000 to 482,000 barrels daily, and refinery runs from 165,000 to 376,000 barrels daily. (Comment concerning future trends in this area will be made later in the submission.)

3. As soon as Canadian crude became available in quantity, the industry moved rapidly to make space for this new supply, primarily in Canada but also in export markets. As a result, Canadian crude production grew from about 80,000

barrels daily in 1950 to over 500,000 barrels daily in 1957. We wish to emphasize that the construction of new transportation facilities and the other adjustments in the structure of the Canadian industry necessary for this rapid expansion of Canadian crude output were carried through by private companies on the basis of private initiative.

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IV. Present Canadian Crude Oil Production: No one would wish to minimize the serious problems created for Alberta producers by the recent declines in crude oil nominations. At the same time, any formulation of long-range policy necessarily has to be based on basic trends in the Canadian producing industry rather than on the immediate situation.

As a starting point, it must be emphasized that current Alberta nominations reflect a number of immediate adverse factors. Firstly, Saskatchewan production increased from 58,000 barrels daily in 1956 to 101,000 barrels daily in 1957, which was by far the sharpest increase recorded by that Province, and which displaced a comparable volume of Alberta crude. Also, our own operations indicate that the business recession and the mild winter have somewhat slowed the growth of market demand for petroleum products. Unfortunately, statistical data on demand, refinery runs, and inventories are not precise or recent enough to permit exact estimates of the influence of these factors.

Until the sharp drop in production, of recent months, Canadian crude oil production as a whole has been growing for several years at a rate unmatched in any other major producing are of the world. Canada's crude oil production in 1957 was more than twice that of 1953 and nearly twice the

rate even of as recently as 1954. Iran was the only other country where such rapid proportionate growth occurred in the same period, but the trend in Iran is distorted by the 1951-4 shutdown. It is true of course that in the early postwar years, when Canadian producibility was still small, other producing areas showed faster relative growth. Data on crude oil production in major producing countries are given in Exhibit B.

Another significant fact is that while Canadian production has continued far below producibility, notably in Alberta, comparison between production and reserves shows a relatively favourable pattern.

Canadian crude oil production in 1957 amounted to 5.65% of estimated year-end reserves. This is not an unsatisfactory showing for a relatively new producing area. In Venezuela, where production and market outlets are of much longer standing, the comparable ratio for 1957 was 6.34%. And in the United States, where production is now considered very high relative to remaining petroleum resources, the ratio in 1957 was but 8.09%. Computation of these ratios is shown in Exhibit C.

These facts tend to support the conclusion that, from its inception and through most of the year 1957, the Canadian producing industry made impressive progress in finding outlets for its

growing supplies, relative to the trends in other areas, until current short-term factors began to impinge upon nominations.

The next two sections of this submission concern probable outlets for Canadian crude oil in the years immediately ahead.

V. Future Outlets for Canadian Crude Oil - The United States Market: It is our opinion that, due to transportation costs, the economic market for Western Canadian crude comprises the North-Central and North-West areas of the United States, and the Canadian markets to the west of the Province of Quebec.

Exports of Canadian crude oil to the United States did not become significant in volume until 1955. The following table shows the volumes since that time, divided between the North-Central area of the United States and the United States West Coast.

	U.S.North-Central	U.S.West Coast	Total
	'000 barrels daily		
1955	15	31	46
1956	50	67	117
1957	56	95	151
January,1958	73	52	125

The current decline in Canadian crude oil exports to the United States is partly due, of course, to return of normalcy following the situation a year ago when the Suez crisis was providing

additional outlets for Canadian crude. The extent to which these exports have also been affected by the United States "voluntary" restrictions program cannot be measured precisely.

While no significant estimates can be made regarding possible modifications of the United States petroleum imports policy within the next twelve or twenty-four months, it is our opinion that the United States will be compelled, by the very early 1960's, to liberalize the present policies.

During the three years 1955-7 an average of 55,300 wells was drilled annually in the United States, 31% more per year than in the preceding eight years 1947-54. Yet the average of new oil reserves found annually in 1955-7 was 12% below the annual average in 1947-54. To anyone familiar with oilfield operations, these trends clearly indicate levelling off of production potential.

In a study prepared last year, the Petroleum Department of The Chase Manhattan Bank, of New York City, estimated that the petroleum requirements of the United States would reach 11,200,000 barrels daily in 1961, and 14,300,000 barrels daily in 1966.

In evaluating whether these needs could be met under continued stringent import policies, The Chase Manhattan Bank study made the following significant analysis:

"We have predicted that domestic demand by 1966 will grow to approximately 14.3 million barrels per day. And we are now faced with this question: Is it plausible to believe that domestic production can continue satisfying 90 percent of the nation's tremendous thirst for oil? To achieve this objective and maintain our present reserve capacity, we would have to find one and a half barrels of oil for every barrel produced. Based upon the demand outlook as we see it, cumulative consumption of domestic crude oil in the next decade must total 38 billion barrels. Gross additions to reserves, therefore, would add up to 57 billion barrels. That means we ought to find 4.5 billion this year and gradually boost our discovery rate up to 7.1 billion by 1966. If recent drilling results continue, a total of 1.2 million wells would have to be drilled in the next ten years, ranging from about 86,000 this year up to around 165,000 in 1966."

This study concludes that United States production cannot reasonably be forecast at above 9,600,000 barrels daily for 1961 and 11,000,000 barrels daily for 1966, indicating net import requirements of 1,600,000 barrels daily in 1961, and 3,300,000 barrels daily in 1966. This compares with a net imports rate of about 1,000,000 barrels

daily into the United States in 1957. The above analysis is objective, in our opinion, and in keeping with the realities of petroleum exploration and production.

If marked change can be expected in United States petroleum imports policy, what is the size of potential market that could be expected for Canadian crude?

Another study by The Chase Manhattan Bank forecasts requirements for crude oil in the West Coast area of the United States to be 1,950,000 barrels daily for 1966. Production in California at that time is envisaged at being about the same as the 1956 level, namely, 1,040,000 barrels daily, while supplies of crude oil to the area from other sources within the United States are estimated at 250,000 barrels daily. These estimates indicate a deficit of the order of 660,000 barrels daily which would have to be covered by imports. This compares with the actual deficit of 179,000 barrels daily in 1956.

We do not wish to imply that all, or even the major part, of this West Coast deficit will become an assured market for Canadian crude. This will depend particularly upon relative delivered prices of other offshore crudes. Also, it is not inconceivable that additional pipelines could be built into the West Coast area from inland United States producing centers.

However, it is our opinion, as stated, that well before the year 1966, the United States Government will have liberalized its petroleum imports policy in order to conserve remaining domestic petroleum resources. Under such conditions, normal economic forces will tend gradually to contract the market area of United States crude oil, back toward the producing centers. Canadian crude oil should be in a strong position, therefore, to compete for this large West Coast import requirement, particularly in the northern part of the West Coast where transportation factors are most favorable.

Prospects for expanded outlets for Canadian crude oil are even more encouraging in the North-Central areas of the United States. We wish to consider first the three-state area of Minnesota, Wisconsin, and Michigan, which in 1956 consumed approximately 670,000 barrels daily. This area has limited indigenous production -- about 29,000 barrels daily in Michigan -- which is based on small reserves and is expected to decline.

Analyses of population trends and trends in per capita utilization of petroleum in this three-state area indicate that in 1960 its petroleum demand will be about 80,000 barrels daily above the 1956 level, and in 1965 will be 210,000 barrels higher than in 1956.

Due to geography and transportation factors, this inland market is one in which Canadian oil is in a position to compete strongly. Hence, under the revised American petroleum policies which we believe to be inevitable, a substantial access to this market should develop. We believe it is realistic to envisage Canadian crude oil supplying not only the incremental demand which will develop, as indicated above, but even beyond that, making significant inroads into supplies of United States origin which currently supply the bulk of demand in the area.

At a somewhat later time, we believe the opportunity will develop for penetration of Canadian oil into the even larger markets of three adjacent States: Ohio, Indiana and Illinois. Petroleum demand in this area in 1956 amounted to over 1,000,000 barrels daily. There is somewhat larger local production in this area -- approximately 270,000 barrels daily in 1956 -- but again the crude oil reserves are inadequate to support any expansion of production. We estimate that, in 1965, demand in this area will reach a total of 1,336,000 barrels daily, which is 310,000 barrels daily above 1956.

Demand and production data for these North-Central areas of the United States will be found in Exhibit D, together with the above forecasts

of demand.

VI. Future Outlets for Canadian Crude Oil - The Canadian Market: The previous section outlined the strong growth in exports of Canadian crude oil to United States markets, expected in the years ahead. This section will deal with the expansion which we foresee in Canadian markets for Canadian crude oil.

The recently released Gordon Commission Report forecasts that between 1955 and 1965 Canada's population will increase by 3,000,000 to 4,000,000, and that Gross National Product in constant dollars will increase at a rate equivalent to about 3.8% to 4.3% annually. This latter estimate compares with the actual growth in Gross National Product which occurred between 1950 and 1957, which was at a rate of 4.3% annually.

It is our opinion that economic growth in Canada at the rate envisioned by the Gordon Commission Report would result in growth of petroleum demand at a rate of approximately 6.3% annually during the period 1957 to 1965. This would mean that by 1965 petroleum demand would be at a level of 1,200,000 barrels daily, compared with the 1957 level of 738,000 barrels daily, an increase of 462,000 barrels daily.

It was noted earlier that petroleum demand in Canada increased between 1950 and 1957 at an

average annual rate of 10.4%. In developing our forecast of petroleum demand growth from now to 1965 we have given effect to a number of special factors, which will tend somewhat to slow the growth of petroleum demand, relative to the postwar period to date. The three most important such factors are: first, the growing use of natural gas for domestic and industrial purposes; second, the fact that the major part of the conversion to petroleum fuel for space heating has now been accomplished; and third, the substantial degree to which mechanization of Canadian agriculture has been completed since the war.

Although the growth of petroleum demand foreseen from now to 1965 is at a smaller percentage rate than in recent years, it is still a very rapid growth,compared for example with the 3% to 4% growth rate which most economists believe is the basic trend in the United States. We would like to note also that our petroleum forecasts indicate a somewhat more rapid growth than the projections contained in "Canadian Energy Prospects" by John Davis, prepared at the request of the Gordon Commission.

Of the additional demand of 462,000 barrels daily which we believe will develop in Canada between now and 1965, the larger part by far will develop in the areas west of Quebec. In recent years the percentage growth rate of demand in the areas west of Quebec has been about the same as in Quebec and the

Atlantic Provinces. Our demand forecasts, contained in Exhibit E, indicate that this pattern will continue, and that the areas west of Quebec will continue to account for two-thirds of Canadian demand.

Thus, of the total estimated increase in Canadian demand of 462,000 barrels daily during the period 1957 to 1965, 304,000 barrels will be in areas now served by Canadian crude. Allowance must also be made for the continuing relative growth of Ontario as a refining center, based largely on Canadian crude and the resulting gradual decline of product shipments from Montreal into Ontario. An increase of about 340,000 barrels daily of Canadian crude oil will therefore be required to meet demands. In 1957, utilization of Canadian crude in Canadian refineries amounted to 354,000 barrels daily. By 1965 it will be nearly 700,000 barrels daily, or virtually double the 1957 rate. Even by 1960, in our judgment, running of Canadian crude in Canadian refineries served by present transportation facilities would be at least 122,000 barrels daily above the level of 1957.

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VII - Considerations Concerning an Alberta-Montreal Pipeline.

Up to this point we have attempted to sketch the growth that can be expected in the economic markets for Canadian crude. While we do not wish to imply that this growth will necessarily always proceed smoothly and without interruption, it is our opinion that, barring unforeseen circumstances, the expansion of these markets will result in an impressive average growth trend for Canadian production in the years ahead.

Against this background we would like to comment rather briefly upon some of the major problems inherent in an Alberta-Montreal pipeline.

The first issue is whether the area from Montreal eastward is an economically sound outlet for Canadian crude oil. Petroleum, especially in the crude oil form, is both bulky and heavy compared to its value; hence transportation is normally of great relative importance in the final delivered price. As is well known, pipeline transportation, while efficient compared with railway or truck movement of petroleum, is more costly than movement by ocean tanker, on a per barrel mile basis. We feel that a considerable burden of proof therefore must be borne by a concept whereby a pipeline some 2,200 miles in length would be built into a seaboard area which is a comparable distance from

the large petroleum resources of the Caribbean, as well as having access to competitive Middle East supplies.

The second issue concerns rigidity. From the point of view of avoiding economic waste, or of obtaining return on investment, it would be necessary to assure continued and guaranteed utilization of such a facility if it were built. Guaranteed utilization of the line would require that Canadian crude oil be used in the refineries of Montreal regardless of any change that might occur in the relative economics of Canadian versus offshore crude delivered at Montreal. Regardless of opportunities that might arise, to obtain offshore supplies at lower cost, crude oil from the pipeline would have to be used. The industry in the Quebec area would thus be placed in the position of a buyer relying mainly upon a single source of supply, a markedly disadvantageous position compared to that of a buyer with access to a number of alternate sources of supply.

The present relationship between the cost of offshore crude oils laid down in Montreal, and Canadian crude oil, could change radically under various circumstances, and in all probability we will see in the period ahead considerable fluctuation in this relationship. In regard to the prices posted for the offshore crudes at

their points of origin, the trend in recent years has been toward weakening of the traditional dominance of United States Gulf Coast prices over the world crude price structure. This trend is likely to continue, in view of the increasing number of significant producing areas abroad, as well as the growing number of companies involved in overseas production, and intensifying competition for crude outlets.

Further, changes in marine rates can materially affect relative landed costs of offshore crude oil. Exhibit F shows the change in landed cost of various offshore oils that would result from 20-point changes in marine rates. For example, for a particular Persian Gulf crude oil, a reduction of tanker rates from USMC-20% to USMC-40% would reduce the landed cost at Montreal by 36 cents per barrel. For a Venezuelan crude oil, the effect would be 12 cents, still a very real factor.

Broadly, we feel that the pipeline could be kept continuously utilized only by imposition of a rigid pattern of supply. Under changing conditions from time to time, this rigid pattern would become uneconomic relative to alternative supplies from offshore. Under such circumstances we believe the refining-marketing industry could not maintain its present efficiency in providing

consumers with petroleum requirements at reasonable cost, in the areas currently utilizing offshore crudes.

Because it is impossible to foresee precisely what future movements in the world price structure and marine rates might be, we should consider the pipeline issue under two different sets of circumstances.

On the one hand, if the offshore crudes did become increasingly costly relative to Canadian crudes, which we consider unlikely, this would mean that the Canadian crude would be able to penetrate that much more rapidly into the markets of the United States North-Central and West Coast. This of course assumes, which as stated before we believe to be realistic, that United States petroleum imports policy will shift toward greater utilization of imported crude oils.

On the other hand if, as seems more likely, the foreign crudes tend to decline in delivered cost relative to Canadian crudes, the distortion forced upon the industry's operations in Quebec by a pipeline would be more and more severe, and we find it difficult to visualize how the industry could operate on a flexible and competitive basis.

One of the main problems that would arise would be the substantial difference in cost of

crude supplies of those refiners tied to the Canadian crude versus those using offshore crude, in Quebec and the Maritimes. We believe that this problem would become increasingly complicated.

VIII - Considerations Concerning an Energy Board.

As indicated at the start of this submission, McColl-Frontenac does not believe that creation of an Energy Board would be a constructive step, in so far as the petroleum industry is concerned. We do not believe that there is a need for such an additional agency, and we are greatly concerned that creation of an Energy Board would encourage a tendency toward growing dominance of political and sectional considerations over economic factors, in regard to petroleum.

Our position is most certainly not that the petroleum industry is unimportant to the nation, or that its affairs should not be the concern of the people of Canada and of the Dominion and Provincial Governments. Unquestionably, the industry is of vital importance: to all regions of the country as petroleum consumers, and to Alberta and Saskatchewan in particular as petroleum producers.

But we cannot subscribe to the philosophy that the importance of a particular economic sector automatically creates a justification for additional governmental bodies to oversee that

sector. Such additional governmental bodies are justified only when there are specific problems or difficulties which private initiative cannot handle.

The objective of periodically reviewing Canada's energy position in its entirety -- collecting information and gathering informed opinion, defining trends and evaluating future prospects -- can best be achieved through Royal Commissions such as the present one. Periodic reviews of this type will supplement the studies of petroleum matters presently conducted by the Dominion and Provincial authorities. In this way broad guidance will be provided to deal wisely with such issues as pipelines and energy exports, and under existing legislation enactments the present governmental bodies should be fully equipped to perform their necessary functions.

On the other hand, it is our view that creation of a new Energy Board as a continuing Dominion agency, even if originally conceived as a purely advisory group, would tend to result in the multiplication of administrative functions. The very existence of such a Board would encourage various groups to seek specific petroleum policies in their favour, and lodgement in the Energy Board of authority to administer such policies. We sincerely doubt that the result would be conducive to most effective performance by the petroleum

industry.

IX - Short-Term Measures to Improve Alberta Nominations.

As indicated in previous sections, the trend in regard to Alberta nominations will be markedly favourable, in the years ahead, in our best judgment. In the short-term, improvement may well begin fairly soon, depending on overall economic trends and other factors. However, the present problem in Alberta is sufficiently serious that we believe all parts of the industry should endeavour to do whatever is feasible immediately to improve nominations.

We are aware that other companies are making adjustments in this direction, which should be of material importance. McColl-Frontenac, for its own part, intends this year to run 15,600 barrels daily of Canadian crude at its Port Credit refinery, recently acquired, in comparison with the 11,240 barrels daily run in 1957 and the 6,700 barrels daily run in 1956. This reflects the current trend in the industry toward gradual shift of refinery growth westward from the Montreal area. Also, we expect that expanding runs at our Edmonton refinery will require about 1,000 barrels daily of additional Canadian crude, compared with 1957. Finally, our majority shareholder -- The Texas Company -- has authorized us to indicate that Texaco's new Puget Sound refinery will utilize a

significant volume of Canadian crude oil in its crude stream.

THE CHAIRMAN: Thank you very much, Dr. Howells.

I think, Mr. Pattillo, we should have a ten-minute break before we carry on.

MR. PATTILLO: Thank you.

THE CHAIRMAN: We will have a ten-minute recess.

---A short recess.

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ANGUS, STONEHOUSE & CO. LTD.
TORONTO, ONTARIO

THE CHAIRMAN: Gentlemen, the Commission will now resume its hearing. Mr. Pattillo?

MR. PATTILLO: Thank you, Mr. Chairman.

Mr. Lilley, I will address the questions to you and you can either answer them yourself, or direct them to any member of your group.

I would like to deal, first of all, with the shareholding position of McColl-Frontenac. How many shares capital stock are outstanding?

MR. LILLEY: 3,238,453.

MR. PATTILLO: How many shares, what percentage of the total issued, are owned by the Texas Company?

MR. LILLEY: Sixty-five per cent was the figure. I do not have it broken down. Sixty-five per cent is the ownership.

MR. PATTILLO: Thank you. Of the remaining 35 per cent, what per cent is owned in Canada?

MR. LILLEY: Shares held in Canada amount to 979,391 or 30.24 per cent.

MR. PATTILLO: So that there is only approximately 4 per cent held outside of the country by shareholders other than the Texas Company?

MR. LILLEY: Yes. Actually, the breakdown of that is 3.2 per cent held in the United States, outside of the Texas Company, and one per cent held in foreign countries.

MR, PATTILLO: And of that 3.2 per cent

held in the United States, is any portion of that held by officers or officials of the Texas Company in their own right?

MR. LILLEY: I am not able to give you a direct answer to that. It is a categoric private investment and I do not actually know.

MR. PATTILLO: How many directors has the company?

MR. LILLEY: McColl-Frontenac has a total of 13 directors.

MR. PATTILLO: Would you tell me how many of them are Canadians?

MR. LILLEY: Yes, we have eight Canadian directors and five American directors, one of whom is resident in Canada, and only one of the eight Canadian directors is an employee of the company. The others are outside directors, as we classify them.

MR. PATTILLO: That is what I would call parttime, as opposed to fulltime directors.

MR. LILLEY: I would accept that definition. We like to think of them as people who are employed in other ways in life and are kind enough to assist us by being members of our Board.

MR. PATTILLO: Now, of these directors who are directors of the company and employees, are they all fulltime workers with the company?

MR. LILLEY: The two directors who are

employees and members of the Board are Mr. Farquharson and myself, and I think we are both employed full-time.

MR. PATTILLO: How many of the directors who are on the Board are nominees of the Texas Company?

MR. LILLEY: There are four.

MR. PATTILLO: Who are they?

MR. LILLEY: The four directors are Mr. C. B. Barret, of Houston, Texas; Mr. Robert Fisher, of New York; Mr. T. C. Twyman, of New York, and Mr. C. W. Seville, of New York.

MR. PATTILLO: How many directors of McColl-Frontenac are directors of the Texas Company?

MR. LILLEY: One; Mr. C. B. Barret, of Houston, Texas.

MR. PATTILLO: How long have you been president of McColl-Frontenac?

MR. LILLEY: Since January 1st, 1958.

MR. PATTILLO: How long have you been associated with the company?

MR. LILLEY: With McColl-Frontenac since January 1st, 1958.

MR. PATTILLO: Prior to that time were you with the Texas Company?

MR. LILLEY: I was.

MR. PATTILLO: How long have you been

with the Texas Company?

MR. LILLEY: Twenty-five years.

MR. PATTILLO: And during that time what had been the scene of your operations, in Texas and elsewhere?

MR. LILLEY: I started out in California, in various capacities and various places on the west coast. Subsequent to the Second World War, when I was out of the company in military service, I was in France, in charge of a company there for a while that was operated by the Texas Company and with a company in which the Texas Company had an interest. Subsequently to that, I was general manager of foreign operations in the eastern hemisphere, in New York City, and, subsequently, vice-president and, still subsequently, vice-president and director.

MR. PATTILLO: So you have a good knowledge of the operations of the Texas Company, worldwide?

MR. LILLEY: I would say I have a working knowledge of it in some respects. It is a large company and there are many fields in which I have no familiarity.

MR. PATTILLO: Up to the time that you left the Texas Company to come to Canada (and you have indicated the year, I think), has the Texas Company taken any position in the United

States relative to the import of crude oil into the United States?

MR. LILLEY: I think the position of the Texas Company as to importation of crude oil generally into the United States has been and, as far as I know, is today that they are opposed to restrictions in importation of crude oils into the United States.

MR. PATTILLO: Does the Texas Company operate as a producer in the State of Texas?

MR. LILLEY: Yes, it does.

MR. PATTILLO: Under pro-rationing?

MR. LILLEY: Yes.

MR. PATTILLO: What has been the Texas Company's position on the subject matter of pro rationing? Is it in favour or is it against it?

MR. LILLEY: I don't know that I can answer that question categorically. They have accepted it. It is the law of the State, in the case of Texas. I have never heard any opposition to it, particularly.

MR. PATTILLO: Well, you and I both agree that we sometimes operate under laws which we do not approve of.

MR. LILLEY: That could be.

MR. PATTILLO: You could not assist the Commission as to the view of the Texas Company on pro rationing?

MR. LILLEY: My general position is that they have accepted it and I have never heard any opposition to it.

MR. PATTILLO: Well, perhaps I will ask about McColl-Frontenac's position. You operate in the Province of Alberta?

MR. LILLEY: I think, if Dr. Howells would care to answer it, he is in charge of this particular segment of our operations here.

MR. PATTILLO: Thank you.

MR. HOWELLS: Well, I am in more or less the same position as already stated, that we do abide by the laws and regulations of the country.

MR. PATTILLO: I accept that. I know that everybody in the industry does. I merely want to find out ---

MR. HOWELLS: Perhaps, in order to go over it a little more clearly, we might turn to its inception. I think it was the result of equities developed following the difference in the purchasing by wells by different countries, and I think it was in December of 1950 that this pro rationing was put into effect.

Now, this pro rationing was put into effect after discussions between government and industry and it was decided at that time that this was the most equitable arrangement in order to provide marketability for the oil which was in

excess of the market at that time, and everyone agreed to that, and we ourselves are in agreement with the principle of pro rationing as it exists in Alberta.

MR. PATTILLO: Do you agree with me, Dr. Howells, that you can have conservation without pro rationing?

MR. HOWELLS: Oh, yes, providing the only element involved is waste.

MR. PATTILLO: Do you agree with me that pro rationing, as such, is nothing more nor less than price maintenance?

MR. HOWELLS: No.

MR. PATTILLO: Do you agree with me that you cannot have pro rationing without having price maintenance?

MR. HOWELLS: No, I cannot agree with that, entirely.

MR. PATTILLO: Since pro-rationing has been in Alberta, from your knowledge of the business, has there been anything inconsistent with price maintenance in the full sense of the word?

MR. HOWELLS: Not to my knowledge.

MR. PATTILLO: Similarly, from your experience with the Texas Company, Mr. Lilley, would you say that the same thing applied in the State of Texas?

MR. LILLEY: Specifically what, Mr.

Pattillo?

MR. PATTILLO: That so long as you have been associated with the Texas Company and pro rationing has been in Texas, that there has been nothing, to your knowledge, inconsistent with price maintenance practice in the State of Texas?

MR. LILLEY: I don't feel that price maintenance is necessarily a following fact from pro rationing, if that is what you are asking.

MR. PATTILLO: No, that is not quite what I am asking. I have accepted Dr. Howell's saying that it does not necessarily follow. I am saying is there any practice ---

MR. LILLEY: I think the prices in Texas tend to fluctuate materially. You can look at the records for the last year. They are not at all consistent in their performance.

MR. PATTILLO: What I am asking is, is there one price prevailing, one uniform price prevailing for fields, regardless of who the producer may be?

MR. LILLEY: Well, if you mean that there is one uniform price for one quality of crude in one field at a particular given time, generally, I suppose, that prices boil down to that level. There are times when people have a disagreement as to what that price should be,

and at that time there would be a fluctuation; and, finally, because people would sell the same commodity for two or three different prices, they tend to find a level as to buyer and seller.

MR. PATTILLO: I fully appreciate that all the books on the philosophies of economics develop that theory; but what I am after is (and I think you appreciate what I am after): is the posted price in Texas, from your experience with the Texas Company, the actual price?

MR. LILLEY: I don't know exactly what you mean by "the actual price".

MR. PATTILLO: Well, what I mean is -- I will illustrate it by the sale of automobiles, and I think you probably have had experience with buying and selling an automobile. You see automobiles offered for sale at list price. Very few people, I think, buy an automobile at list price, and that is where the negotiation and the supply and demand factors come into consideration.

Now, in the oil business in Texas, from your experience, is it the posted or list price that prevails, or is it a discount off that, due to negotiations?

MR. LILLEY: Well, I would say this, that, generally speaking,prices are the posted prices at which products or crude moves there; but I think there are certain times when it is

not the case, where either premiums or discounts can prevail, depending on the conditions of the market.

I do not think you could make a fixed, categorical statement to that effect.

MR. PATTILLO: Dr. Howells, in the Province of Alberta, in your experience, what prevails, the posted price or are there sales, to your knowledge, with discounts off them?

MR. HOWELLS: I have no knowledge as to sales with discounts.

MR. PATTILLO: Will you tell me about the Texas Company's operations in Venezuela? Is it carrying on business in that country?

MR. LILLEY: It is.

MR. PATTILLO: In the producing area?

MR. LILLEY: It has producing interests there.

MR. PATTILLO: And in the Middle East, is it carrying on business in that area?

MR. LILLEY: It is carrying on business in the Middle East.

MR. PATTILLO: In the producing field?

MR. LILLEY: In the producing field.

MR. PATTILLO: Directing myself and you, for a moment, to the Montreal market: the McColl-Frontenac refinery at Montreal has a capacity of what?

MR. LILLEY: 59,000 barrels per day.

MR. PATTILLO: Are all of its crude requirements being brought into Montreal over the Portland-Montreal pipe line?

MR. LILLEY: The majority. Some by tanker.

MR. PATTILLO: Where is the source of these crudes?

MR. LILLEY: The source is the Middle East and South America, primarily.

I can ask Mr. Farquharson for more detail, if you care for it.

MR, PATTILLO: Please.

MR. FARQUHARSON: The crude processed at the Montreal refinery is Venezuelan, Trinidad, Arabian.

MR. PATTILLO: In what percentage?

MR. FARQUHARSON: I have not got it in percentages.

MR. PATTILLO: You can give it to me any way you wish.

MR. FARQUHARSON: I will give it in thousands of barrels daily.

Venezuela, in 1957, was 34,800 barrels per day; from Trinidad, 3,000; Arabia, 19,000, and a small amount of U.S. crude, 300 barrels.

MR. PATTILLO: Is the U.S. crude merely for the purpose of blending?

MR. FARQUHARSON: No, it was created as one type of U.S. crude that came in at the time of the Suez crisis.

MR. PATTILLO: Taking the Venezuelan crude, is the Texas Company or one of its affiliates the owner of that crude which you are bringing into Montreal?

MR. FARQUHARSON: We believe that the Texas Company have that ownership.

MR. PATTILLO: The 3,000 barrels from Trinidad, is that coming in from the Texas Company or one of its affiliated companies?

MR. FARQUHARSON: That came in from our own production in Trinidad.

MR. PATTILLO: McColl-Frontenac's?

MR. FARQUHARSON: Antilles Petroleum.

MR. PATTILLO: Which is a subsidiary of McColl-Frontenac?

MR. FARQUHARSON: It was a subsidiary.

MR. PATTILLO: I beg your pardon?

MR. FARQUHARSON: It was a subsidiary.

MR. PATTILLO: It is no longer a subsidiary?

MR. FARQUHARSON: No, that company has been disposed of.

MR. PATTILLO: To the Texas Company?

MR. FARQUHARSON: Yes.

MR. PATTILLO: Now, the Middle East

crude: is it coming from the Texas Company or one of its affiliated companies?

MR. LILLEY: Yes, the origin of that crude is Arabian American Oil Company, commonly known as Aramco.

MR. PATTILLO: In which the Texas Company has a substantial interest?

MR. LILLEY: Thirty per cent.

MR. PATTILLO: So would it be fair to say that all of the crude, other than the U.S. crudes, supplying the Montreal refinery of McColl-Frontenac, has been acquired from the Texas Company or one of its associated companies?

MR. LILLEY: Except for Antilles, which we have already mentioned, if you were talking in terms of the last few years. There have been times in the past when we have purchased crude on the outside, from other groups of companies or other companies.

MR. PATTILLO: Now, the 300 barrels that you bring in from the U.S.: is that from the Texas Company?

MR. FARQUHARSON: As far as we know.

MR. PATTILLO: Now, Mr. Lilley, from your knowledge of the operations of the Texas Company, is there any pro rationing affecting its operations in V nezuela?

MR. LILLEY: I am not familiar with the

operations in Venezuela. I have never had any connection with that operation and I really could not answer the question.

MR. PATTILLO: Could you help me about the Middle East?

MR. LILLEY: I would like to, if I can.

MR. PATTILLO: What is the pro rationing situation there?

MR. LILLEY: I don't know of any pro rationing out there that exists in so far as the Middle Eastern operations are concerned, other than the normal pro rationing, I suppose, which is a matter of good judgment as to what you can produce and what you can sell.

MR. PATTILLO: Yes, that is self-imposed.

Now, how do you transport this crude? By tanker, I assume, to Portland or direct to Montreal?

MR. LILLEY: Yes, it comes in by tanker over one of two routes.

MR. PATTILLO: Are these tankers owned by McColl-Frontenac or the Texas Company or an affiliate of either company?

MR. LILLEY: Some of our contracts are contracts including enfreightment, which we have, what is normally called a c.i.f. price for our crude oil. Some of the cargoes arrive in ships

which McColl-Frontenac has under direct charter of its own. McColl-Frontenac, except for lake vessels, does not own any vessels. It is not a company with sufficient interest in marine fleets and enough money to put into it at this time. Some are direct charters and some are on the c.i.f. arrangement.

MR. PATTILLO: Are any of those ships you are chartering on long-term ownership by the Texas Company or any affiliate of it?

MR. LILLEY: No, they are not.

MR. PATTILLO: What do you find are the prevailing rates today for long-term charter from Venezuela?

MR. LILLEY: I don't know that that is a very easy one to answer, Mr. Pattillo. The rates are all over the place. It depends a great deal on what you are talking about. There are rates for spot which fluctuate heavily. There are rates for consecutive voyages, there are rates for one year charter and for long-term.

It is a very complicated picture. I am no authority on the tanker market, but the spot rate, generally, in a depressed condition, tends to run somewhat inconsistently than the more stable enfreightment for long periods of time.

MR. PATTILLO: I would assume that probably you would try to plan your tanker requirements

by having some long-term and some spot, so that you would not be caught if it shifts.

I merely want to try and get your experience at the present time as far as tanker shipments are concerned, what you would consider is the average rate that is prevailing.

MR. LILLEY: Well, I will check our average rate for you but, as far as our situation is concerned, it depends on when you come into the market and, looking at your tanker bottoms, I think our situation at McColl-Frontenac has been that we went into the market at a time when the reverse of the present situation was true and that you could secure more profitably or at better rates tankers for long-term, and our commitments are not on a spot basis, generally speaking; but I will check that.

This is a general answer to your other question that our rates in South America on which we are using our ships are USMC minus 35, USMC minus 40, which are long-term charters, and at the time we got them we thought it was fairly good.

MR. PATTILLO: And on your Middle-East run what are your rates prevailing there?

MR. LILLEY: Well, USMC minus 37 to USMC minus 47, approximately.

MR. PATTILLO: Do you agree with the evidence given to us by Shell about the line from Portland to Montreal, the tariffs prevailing and the interest positions?

MR. LILLEY: The evidence given by Shell?

MR. PATTILLO: Yes.

MR. LILLEY: I am sorry to say I was not here when Shell was on. I really don't know that evidence. I am not familiar with the testimony.

MR. PATTILLO: I understand all the refiners that are shipping over that line own an interest in the line; is that correct?

MR. LILLEY: Correct.

MR. PATTILLO: And all of the refiners that are operating in the Montreal area are shipping over that line.

MR. LILLEY: I would rather have Mr. Farquharson answer that; I believe he is more familiar with that operation than I am.

MR. FARQUHARSON: Mr. Pattillo, we are in agreement with what Shell said about that situation. I was here when that evidence was given.

MR. PATTILLO: Now, this products line

that runs from Montreal to Toronto and beyond, can you give me some information about that? First of all, what is the width of the right-of-way?

MR. FARQUHARSON: I couldn't tell you that exactly. I would imagine it would be 60 feet.

MR. PATTILLO: Do you know what the size of the pipeline is?

MR. FARQUHARSON: Yes. It is a 10-inch pipeline, with a branch to Ottawa running from Farrans Point which is an agent's line.

MR. PATTILLO: Can you tell me where in the right-of-way that pipeline is located?

MR. FARQUHARSON: No, I cannot.

MR. PATTILLO: And would you be able to give me that information?

MR. FARQUHARSON: I can get it for you.

MR. PATTILLO: Will you please do so?

MR. FARQUHARSON: I will.

MR. PATTILLO: Now, do you know anything about the construction of the line? In other words, is the line as constructed today in the ground capable of being used as a crude oil line?

MR. FARQUHARSON: Yes.

MR. PATTILLO: Mr. Lilley, will you please obtain for us the information that I requested from Imperial Oil and Shell relating to the operations in Venezuela, the Middle East, and Alberta?

MR. LILLEY: We can find that, of course,

but specifically this has to do with ownership.

MR. PATTILLO: I think you told us about the ownership, but what I want to find out is the cost of acquisition, the cost of development, the cost of operating. In other words, I want to find out, if I can, what the Texas Company's experience has been as to the replacement cost in the Middle East, in Venezuela, and what McColl-Frontenac's replacement cost has been in Alberta.

MR. LILLEY: I am not trying to evade this, but in so far as the Canadian section of it is concerned, McColl-Frontenac would be glad to provide you with any data you require. I understand Texas are coming on, and possibly it would be more appropriate today to supply the other information rather than we do it.

MR. PATTILLO: Now, can you help me on this? From your knowledge of the Texas company, where are its refineries situate in the United States in the areas to which you refer in your brief, namely, the Puget Sound, and I would like to extend that a little further south to San Francisco Bay, and the Middle-West continent places to which you refer and the Ohio and Illinois area.

MR. LILLEY: I think Mr. Farquharson has a list of those.

MR. FARQUHARSON: Starting with the West Coast, Wilmington, California, 60,000 barrels per day.

MR. PATTILLO: Where is Wilmington, California in relation to San Francisco Bay?

MR. LILLEY: It is in the Los Angeles area; it is about 400 miles south of San Francisco.

MR. FARQUHARSON: They have under construction in Puget Sound a 40,000-barrels-a-day plant.

MR. PATTILLO: When do you anticipate that will come into operation?

MR. FARQUHARSON: I can't say exactly, but I understand it is probably in October.

MR. PATTILLO: October of this year?

MR. FARQUHARSON: That is right. It will depend on construction conditions, I would say.

On the inland the refineries are located at Lawrenceville, Illinois, capacity 60,000 barrels a day.

MR. PATTILLO: Where is Lawrenceville, Illinois, in relation to Chicago?

MR.FARQUHARSON: It is about 250 miles south of Chicago. Lockport, Illinois, 65,000; that is just south of Chicago. They have one at Sunburst, Montana, 8,000 barrels a day. That is to be dismantled very shortly.

MR. PATTILLO: To be replaced or to be removed?

MR. FARQUHARSON: No, just to be removed. It is an obsolete refinery.

West Tulsa, Oklahoma, 35,000; Amarille, Texas, 15,000; El Paso, Texas, 13,000; Casper, Wyoming, 17,000.

On the Gulf Coast there is Port Arthur, 230,000 barrels a day; and on the East Coast at Westville, New Jersey, there is a 66,000 barrels-a-day plant.

MR. PATTILLO: Those are all the refineries, are they?

MR. FARQUHARSON: Yes, sir.

MR. PATTILLO: Now, you tell us in the evidence that McColl-Frontenac has oil in Alberta. I am not clear on the figure you gave there, whether you are talking about your maximum permissive rate in the aggregate.

MR. LILLEY: I would rather have Dr. Howells answer that, if I may.

MR. HOWELLS: That is based on the pro rated position in operation.

MR. PATTILLO: That is on the present economic allowable that your company has.

MR. HOWELLS: Yes.

MR. PATTILLO: You are selling that many barrels, in other words.

MR. HOWELLS: Yes.

MR. PATTILLO: What is the M.P.R.?

MR. HOWELLS: That will, of course, vary

with the different fields in which we have an interest. The total producible M.P.R. is 21,000 barrels per day. I don't know whether I should wait for the Texas company on that.

MR. PATTILLO: You give, as a figure here, of the Texas company having 35,000 odd barrels per day. Is that what they are selling or is that - -

MR. HOWELLS: That is an average figure for the year 1957 and not the present-day figure. That is what they sold during the year and is not a reflection other than a conservation measure.

MR. LILLEY: May I make a slight correction? That comes from the 1957 annual report of the Texas company, which is a public document to which anyone has access.

MR. PATTILLO: That is the actual sales figure of Canadian crude.

MR. LILLEY: According to their annual report; that was the source of our information.

MR. PATTILLO: Now, how much is McColl-Frontenac buying per day in barrels?

MR. FARQUHARSON: The figure I have here is 22,400 barrels a day, in 1957.

MR. PATTILLO: Do you know whether the Texas Company up to the present has ever bought a barrel of Canadian crude?

MR. LILLEY: I think they have, have they not?

MR. FARQUHARSON: Yes, they have.

MR. PATTILLO: When and for what refinery?

MR. LILLEY: This will not be a point on which I am very certain. I understand they have purchased some for processing in the Puget Sound area, but I want to have a little review on that to make sure.

MR. PATTILLO: Would you do that and we will deal with it later?

MR. LILLEY: Yes.

MR. PATTILLO: Now, at the present time in Alberta is the McColl-Frontenac Company actively engaged in exploration and development work?

MR. HOWELLS: Yes, sir.

MR. PATTILLO: And would you please give me -- you have told us what your annual day production is and your daily M.P.R. -- would you please give me your reserves and the acreage that you have either under lease or as reservation?

MR. LILLEY: That information is available in our annual report, not exactly to the barrel, and our reserves, including liquid petroleum, 62 million barrels per year by the end of this year -- or last year, rather. That includes natural gas liquids. The amount, I believe, was something in the order of 4½ million barrels. I could get these correct figures for you.

MR. PATTILLO: If you would. If the

Montreal market used Canadian crude, what percentage of that market would be supplied by oil owned and produced by McColl-Frontenac? You can use any figures that you wish as to the aggregate barrels that would be going into Montreal as long as you state what they are.

MR. LILLEY: All right. Would you give us just a moment on that?

MR. HOWELLS: 3%, under the pro rationing system, is the projection as of January 1st, 1960.

MR. PATTILLO: What would be the situation of the Texas company?

MR. HOWELLS: The Texas company, I think we established --

MR. LILLEY: I think really, as long as you are dealing with the Texas Exploration Company, that information could be obtained from them.

MR. PATTILLO: I would be very pleased to, Mr. Lilley. I am just afraid that they might tell us they do not appreciate the Montreal market.

MR. LILLEY: Actually we don't have the information on that.

MR. PATTILLO: They said they were going to use some proportion of Canadian crude at this new refinery in the Puget Sound area. Did they mention anything else to you?

MR. LILLEY: Yes, they mentioned a range. They told us they wanted to employ some Canadian

crude consistent with their plant balance there. They talk of running up to, say, 8,000 barrels per day, or possibly 20% of their capacity. I can't be more specific than that. They were conscious of the need of moving Canadian oil into that market, and they felt that was a fair program.

MR. PATTILLO: Mr. Morrison of the Trans Mountain Pipe Line Company, who gave evidence in Victoria, told us that Alberta oil could be put into the Puget Sound area today at the most economical price of any of the oils, and he also told us that if the line of Trans Mountain was running at capacity its present tariff of 42¢ could be further substantially reduced so that you could get a further reduction just by a reduction in the transportation charge, if you had full capacity. Now, from your experience in the oil business with the Texas company, when the Texas company is only talking about using a percentage of their requirements, if Mr. Morrison's facts were correct, is the Texas company carrying out its usual policy of having some regard for something other than bare economics?

MR. LILLEY: Well, I think the Texas company always has regard for economics, and they also have regard for other things as well.

MR.PATTILLO: Would you explain those things?

MR. LILLEY: Yes, I think I could. I will attempt to, anyway. What I am saying is this, that they have an interest, as you have yourself outlined, in many places in the world, and first and foremost they have an obligation to their shareholders to see that they operate the business in an efficient and economic manner, but certainly they have an interest to see that they are good citizens in the areas in which they operate, which are many. I think they attempt, therefore, to keep a reasonable balance between these two positions in the various areas.

MR. PATTILLO: When we are considering the Montreal market, are these the factors that influence you in bringing foreign crude into Montreal? In other words, as a company in the Texas group, you are having regard to the best interests of the shareholders of the Texas company and you are having regard also to the interests of the Middle-East and the Venezuelan as well as the Canadian consumer.

MR. LILLEY: No, I don't think I could agree with that. Our primary interest here, predominant interest, is looking out for McColl-Frontenac and their own successful survival. Now, we have individual shareholders of whom we

are very conscious; we have a majority of Canadians on our Board, and we attempt to operate this as a company, and at times we import crude from other sources. I wouldn't say that was the governing factor in our Montreal position at all -- certainly no influence outside of Canada.

MR. PATTILLO: You would agree with me that as long as you merely use foreign crude in your Montreal refinery, the profit your company makes is confined to its transportation over the Portland-Montreal pipeline, its refining operation and its marketing operation.

MR. LILLEY: Yes, I think that is essentially correct. We may make some transportation profit, depending on the conditions at a given time and our charters.

MR. PATTILLO: On the other hand, if you are using Canadian crude, with your source of raw material here in Alberta you would also be making, to the extent of the percentage of crude that came into the Montreal refinery that was your own, a profit on producing as well.

MR. LILLEY: That is correct. In a short period we might come at it in the immediate future. I think the tenor of our brief indicates that we have some misgivings that that is in the best interests of our shareholders and the company in the long term.

MR. PATTILLO: In reading your brief I would say that the real fear you have of taking Canadian crude to the Montreal market is the rigidity of the thing, that there would be a very substantial investment that would be required to do this. In order to pay it off it would require a rigidity of supply that you don't think is in the best interests of your company.

MR. LILLEY: I think, Mr. Pattillo, that that in part might be read into our brief. We are nervous about that rigidity and the imposition on the industry conditions and restrictions which might not be for the best interests of the industry. It is our feeling, and I think our brief attempted to demonstrate, that on the coastal markets we are a long way from the source of oil, and when you find tankers able to operate on a better market basis cheaper than pipelines, the long-term basis would be for the coastal markets to pick up crude from outside sources and try and find a market for their domestic crudes at places nearer the source, and I think that is what we attempted to say in our brief.

MR. PATTILLO: I think you did, but I want to see how we are going to get some help from McColl-Frontenac and the Texas company in supplying that market which you think is the normal

market for Canadian crude, and if you are going to have a 40,000-barrel refinery in the Puget Sound area, I am wondering why we cannot look for a total more than 20%.

MR. LILLEY: That is something not known to me. I have only attempted to find out what their future plans and prospects were. I would be very glad to find out what their future planning is and why it is the way it is, but I think that is something in the realm of the Texas company's decision. I know they will try to be as helpful as they can. I know that they have other complications which engage them at this time.

MR. PATTILLO: If they were not subject to pro rationing they would have more than an adequate supply here in Alberta which they could ship into Puget Sound to keep that refinery going at full capacity.

MR. LILLEY: I think pro rationing is at a level which is set at the present time.

MR. PATTILLO: I think you would agree with me that if you didn't have pro rationing as to price -- I am not talking about the conservation matters -- if you had an economic allowable under the present system of 35,000 barrels per day, you certainly would have adequate supplies of your own that you could ship down and supply a refinery of 40,000 barrels a day capacity at a cost less than

the posted price.

MR. LILLEY: Well, I am not sure that I have this question correctly. If you ask me if the Texas company would have sufficient crude available to ship and supply this refinery, I think the answer is yes. If you ask me how the price comparisons work out between the cost of Canadian crude delivered at the Puget Sound area as opposed to the other sources that they also have some responsibility in, I am not able to answer that question at this time.

---Whereupon the hearing adjourned at 12.30 p.m., until 2.00 p.m.

AA

---On resuming at 2 p.m.

THE CHAIRMAN: Gentlemen, the Commission will now resume its hearing. Mr. Pattillo?

MR. PATTILLO: Thank you, Mr. Chairman.

I understand, before I resume questioning, that Dr. Howells has something that he wishes to read in regarding --

MR. HOWELLS: Yes, Mr. Pattillo. You asked this morning a question regarding our land holdings and also our crude oil reserves. We have those figures.

The land holdings are, as of December 31, 1957 (and the figures are to the nearest 500 acres): our working interests lands, which include leased lands and lands held under reservation, amounted to 1,797,500 acres. Our royalty interest lands, 196,000 acres. That is a total of 1,993,500 acres.

Crude oil reserves: 60,500,000 barrels. Natural gas liquids, 1,500,000 barrels.

By the way, I would like to correct that 4½ millions I gave this morning.

That gives a total, of reserves, of 62 million barrels.

MR. PATTILLO: While we are on that subject, it might be a good time to bring this up:

Has McColl-Frontenac ever made a discovery in Alberta or Saskatchewan and, following the discovery, transferred the lands to the Texas

company for development by the latter company?

MR. HOWELLS: The McColl-Frontenac Oil Company -- I may not be too precise as to dates -- entered the field of production in the fall of 1939 and continued as an operator under the sponsorship of McColl-Frontenac only until about 1947, if I remember correctly, at which time an agreement was made with the Texas company to take over the exploration phase of McColl-Frontenac.

This was accomplished under two agreements, the final agreement being in February of 1950. McColl-Frontenac was then out of the field of exploration production until January 1st, 1954 and, since that time, has operated as an entity completely divorced from any other operations of the Texas company.

MR. PATTILLO: Now, I understand that at the present time the Texas company, in Alberta, has a very large MPR.

Dr. Howells, what do you know, personally, as to what proportion of that MPR of the Texas company which it now has would have been in the name of McColl-Frontenac if these agreements had not been made of which you have just told us?

MR. HOWELLS: Well, that would be rather difficult. I have no figures at the moment, of course.

There are many "ifs" and "buts" in

answering a question of that nature, Mr. Pattillo.

MR. PATTILLO: Would you like to prepare a written memorandum on that and file it with the Commission?

MR. HOWELLS: I will do that. Incidentally, we do retain an interest under the agreement with the Texas Exploration.

We will prepare the statement, as you suggest.

MR. PATTILLO: Was the reason for that transfer from McColl-Frontenac to Texas in any way related to the tax advantages of one company versus the other, the difference between the U.S. and Canadian tax position?

MR. LILLEY: May I answer that one, Mr. Pattillo.

I think the correct answer is quite a simple one. It was not based on tax. It is based on finance. It is rather hard for a small marketing and refining company to carry the load of an accelerated producing program and stay within its own finances, and we felt, by so participating, by leaving them to carry more of the load of finance, we would be further ahead as a company, because we were unable to carry on at the accelerated pace as seemed to be demanded.

MR. PATTILLO: What I am interested about, Mr. Lilley, is this: as an official of the Texas

company until very recently, what is the object of carrying on an accelerated program if you are doing nothing about trying to find a market for the crude product?

MR. LILLEY: Well, I suppose the answer to that, Mr. Pattillo, is that people who look for oil are perennial optimists. We think that if we find the oil the economics of growth, the economics of growth of world population and the use of energy will eventually take care of those who find it. We play against the future.

Had the oil industry not done so, I suppose we would have been far shorter in energy reserves in the world than we are today.

MR. PATTILLO: I have heard one person describe the oil exploration and development of companies in Canada vis-a-vis their oil explorations and development, say, in Venezuela and the Middle East, as being, in the one case, an investment in bonds and, in the other case, an investment in speculative stocks.

Would you say that was a fair analogy?

MR. LILLEY: I have never heard that analogy, Mr. Pattillo, but I certainly think there may be some merit in that.

I think that all of us have great confidence in Canada, in Canada's future ability. The Texas company, to which you have often referred, is

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operating -- I know of one place which is producing oil, or, at least, it was a few weeks ago, which was in enemy hands and has been upset by war in the last fifteen years twice and has been lost to them and regained again. That sort of thing may be the speculative element of which you speak.

MR. PATTILLO: Don't you think if a company comes into Canada and has that regard for the national economy that you have been talking about, that it owes a duty to the country to see to it that it not only develops the resources but finds a market for them?

MR. LILLEY: I think that is true.

MR. PATTILLO: With your knowledge and from your association with the Texas company, what has it ever done, other than this possible 8,000 barrels a day in the Puget Sound area, starting sometime in the Fall, to endeavour to develop a market for Canadian crude?

MR. LILLEY: Well, I would say that they are doing something or plan doing something, as you have mentioned, in the Puget Sound area.

I suppose they consider that some of the work done by McColl, although it has no direct connection with the Texas company,may, in a measure, tend to use more Canadian crude, which, in fact, is so.

I know they have contemplated, in times past, certain projects in the three states which were

mentioned in our brief, and I think those things are still alive in their minds, although present day conditions may mitigate them coming to their fulfilment in the immediate future.

MR. PATTILLO: What I am inquiring about is this, Mr. Lilley:

If the Montreal refiners do not want Canadian oil to go to Montreal, don't you think that there is some obligation on them and their parent companies to put forward some alternative which is going to help the producing situation in Alberta?

MR. LILLEY: Well, I think that is a reasonable approach, Mr. Pattillo, and I think they are all very conscious of it and attempting to work out solutions. The one I have mentioned, which was the Puget Sound one -- I don't want to keep repeating this -- was done with that idea in mind, and I think they are searching for ways and means.

As has been said here, this is rather a difficult year in the oil industry and when the pace picks up again and when the hoped for restrictions in the United States begin to ease there may be more markets and places for this oil to flow more naturally.

MR. PATTILLO: Have you looked at the brief which the British American Oil Company has

filed?

MR. LILLEY: No, sir, I have not.

MR. PATTILLO: On page 18 of that brief, they show comparisons of laid down prices in the Puget Sound area and they show that Redwater can lay down at a price of below the laid down price of any crude except Sumatra, which has a 2¢ differential in Sumatra's favour; and they can lay down 48¢ below Venezuelan crude, 20¢ below Arabian crude and 50¢ below Californian crude.

THE CHAIRMAN: Mr. Pattillo, excuse me, but I am just a little bit concerned about your quoting from the British American Oil Company brief, which has not yet been placed before the Commission. I do not know how you can get around that difficulty.

MR. PATTILLO: Perhaps I would change the record. It is not the British American Oil. It is from an unimpeachable source.

MR. LILLEY: Mr. Pattillo, I will accept that.

MR. PATTILLO: Now, when you have those figures from that unimpeachable source, what puzzles me is, if you have a refinery with a capacity of 40,000 barrels and you are going to give Canadian crude an entry up to 8,000 barrels, is it not almost a case that the devil takes the hindmost and that is what Canada gets?

MR. LILLEY: Well, I have not had a chance

to review the figures from this unimpeachable source and I am not at all sure of the elements involved as to transportation or the basic cost.

Sumatra is rather a complicated area, with a rather unusual pricing system and transportation, of course, over that tremendous area is one of the major factors in the landed price, so I really cannot comment on this data.

Refineries are complex things, as I am sure you well know. Product quality and the resultant use of them has a great impact on the type or combination of the crude you run.

I might also repeat something I mentioned earlier, that I think all companies operating in many areas generally try to be good citizens in all of them and sometimes, when you are in a period of surplus, it is difficult to be like Solomon and know how to make decisions.

MR. PATTILLO: Well, I am impressed with this good citizen idea, but I am also interested in the Canadian consumer and Canadian economy. You agree that part of good citizenship is to have regard for that?

MR. LILLEY: True.

MR. PATTILLO: Now, your approach to the Montreal situation, I assume, is that the real reason you do not want Canadian crude to go to Montreal, to the Montreal market, is that it is going to cost

the Canadian consumer more if Canadian crude goes there, is that it?

MR. LILLEY: I think that is one of many reasons, that we believe that will be so.

MR. PATTILLO: Then how are you going to give some benefit to the Canadian consumer by increasing our national wealth out here in Alberta? You will agree that this money in the bank, or the oil in the ground, not in use, is of not much value to anybody except the company that owns it?

MR. LILLEY: Well, yes. Of course, there is always some value in a country looking towards the future, but I do not think we would want to settle for that approach to the problem.

I think our brief mentions the fact that nobody wants to say they are happy with the present distress condition existing in the Alberta area. We, as producers, ourselves, would like to see the situation improved, but I think our hope is that there are other methods of doing it which, in the long run, will bring more benefits than building a Montreal pipeline to the Montreal market. Maybe, someday, that will not be the case; but that is our immediate analysis now.

MR. PATTILLO: Have you got together with any of the other members of the industry to see what alternative suggestions could be brought forward which would not be merely words but would be concrete

things?

MR. LILLEY: No, sir, we have considered our own situation very carefully. That, of course, if our first obligation.

MR. PATTILLO: I am going to ask you this question, which I wanted to ask of Imperial Oil and neglected to do so:

We have had three briefs now, Shell, Imperial Oil and your own with respect to the Montreal refining situation, all opposed to Canadian crude going to Montreal. Have you been present at any meeting of the Montreal refiners where discussion took place as to whether or not you would oppose or would not oppose the proposed pipeline to Montreal?

MR. LILLEY: I have attended no such meetings. I think it is fair to say I have had informal conversations of a brief nature once or twice, but no meetings of any sort with any group.

MR. PATTILLO: Is the viewpoint expressed here the considered, independent viewpoint of McColl-Frontenac, or is it a viewpoint which you agreed to as one of the Montreal refiners?

MR. LILLEY: It is definitely the opinion of McColl-Frontenac Oil Company Limited and is not an agreed-to approach with any other group of companies.

MR. PATTILLO: Dr. Howells, as long as you

have been in Alberta, in the producing business, do you know of any producer in Alberta, other than Imperial Oil or B-A Oil, that, up to the present time, has made any effort to find a market for the products, crude oil products?

MR. HOWELSS: To my knowledge, the two companies mentioned have been the chief purchasers of crude oil in Alberta.

MR. PATTILLO: Now, that is not my question. Do you know of any other companies, other than those two, who are in the producing business in Alberta, who have taken any steps to find a market for Alberta-produced oil?

MR. HOWELLS: I don't know of any specific company, other than those two.

MR. PATTILLO: Do you know of any attempt, which I might say would be an industry attempt, apart from the efforts of those two companies?

MR. HOWELLS: I don't know of any specific incidents of that nature.

MR. PATTILLO: Now, would you agree with me, Mr. Lilley, that as long as you have prorationing in Alberta and prorationing in Texas, and the producers in Alberta continue to follow the policy that has just been outlined by Mr. Howells, such course cannot help but react to the benefit of any company which is producing in Venezuela and sending its raw crude to Montreal?

MR. LILLEY: Just a minute. I am not sure that I have that exactly correct, but if I understand what you are saying --

MR. PATTILLO: We will have the question repeated.

---The Reporter thereupon read back the question.

MR. LILLEY: We are having a little confusion in our own house trying to understand how we will answer the question, because I am not sure I understand exactly what is intended, but I do not see how prorationing in Alberta has any effect on the ability of Venezuelan crude to move in here.

It seems to me what is affected, either favourably or unfavourably, with respect to Venezuela versus Alberta crude, is the fundamental importance of economics and price structure and the ability to reach the market at reasonable transportation costs. I do not quite see the prorationing angle to this.

MR. PATTILLO: Well, I will try to explain what I see about this prorationing angle.

Would you agree, from your experience in the Texas company, that there is a great deal of difference between the spread of the cost of finding oil in Texas and the price for which it sells in Texas and the spread between the cost of finding oil in Venezuela and the price for which it

sells in Venezuela?

MR. LILLEY: Well, I am certainly not a qualified authority, nor do I have figures which would support me as an authority on that particular subject, but I might pass this along, in passing, that -- and I cannot tell you the exact year, but I believe it is in the period since 1950, and the Texas company has been operating since 1902 in Texas and has been operating in South America for many years, and I think it was not until after 1950 that they received a pay-out on their operations in Venezuela, whereas their Texas operations were, I think, reasonably successful.

In other words, the magic of profitability and low cost in these foreign crudes is sometimes not all it really seems to be.

MR. PATTILLO: Of course, what you have just told us could be effected by the same policy; they have followed the same policy in Venezuela, for a while, that they are now following in Alberta.

MR. LILLEY: I think the problem is one more of redeeming -- the fact that it is expensive to operate and buy oil in some of these countries, and you do not do things which you do in areas which are fully developed,and exploration in the jungle is always expensive and sometimes the markets are a long way away, over very rugged terrain, and all these things, weigh into your cost of operation.

background for the question, and I am afraid I did not put it too clearly, apparently, a while ago:

Do you agree that if you have a company operating in three areas and in the highest cost finding area you have prorationing, and in the next highest cost finding area you have prorationing, and in the lowest cost finding area you have no prorationing, that what happens is that the higher cost prorationing areas act like an umbrella over the selling price of the area where there is no prorationing?

MR. LILLEY: Well, I don't know. I think that is a complex question to answer.

Certainly the stability of prices in any part of the world tends to create more stability than in other areas which may be not so inherently stable.

Now, going back into the history of prices of some of the foreign crudes -- I don't know if this is what you have in mind, but you may discover that prices do not follow in the same measure at all, historically, in a proration area, as you might suppose. The Middle Eastern prices have not followed upward to the same degree and they frequently have gone downwards, with no relation to pricing in the United States or Canada.

Now, it is hard to draw a direct association between those two with respect to prorated areas or non-prorated areas.

MR. PATTILLO: Well, we had some information given us the other day by the Home Oil group from some journal, where they said the finding costs in Venezuela were 40¢ a barrel, the finding costs in Texas were the highest in the world and Canada was a little less than the United States, and then we have the one half cent in the Middle East.

I realize this is theoretical, but let us assume that those figures are correct. Then would you agree with me that the spread between the finding cost in the United States and the posted selling price is less than the finding cost in Venezuela and its posted selling price?

MR. LILLEY: Well, based on the assumption, which I may say I do not agree with, but based on the assumption, initially, I do not see how you could do anything but apply mathematics and come up with an answer; but I think the assumptions are somewhat open to question.

MR. PATTILLO: I think so, too, because I have it from another unimpeachable source that the finding cost in Venezuela is ever so much less.

MR. LILLEY: Well, I guess what you call finding costs -- there are a lot of factors that go into an operation.

MR. PATTILLO: What I want to ask you about, and I am trying still to develop this

MR. PATTILLO: Well, this is what I am going to suggest to you, Mr. Lilley. In your experience in the oil business, do you agree that the large international oil companies, Standard, New Jersey, Shell, Gulf, Texas, and there may be some others I have omitted, have substantial control over the United States domestic market?

MR. LILLEY: You have asked me whether they have substantial control?

MR. PATTILLO: Over the United States domestic market.

MR. LILLEY: My answer would be they do not.

MR. PATTILLO: What would you say was the percentage of the domestic supply in the United States?

MR. LILLEY: You mean the amount of domestic production, shall we say --

MR. PATTILLO: And refining capacity.

MR. LILLEY: I have no figures on that. We will have to try and get some for you.

MR. PATTILLO: What I am suggesting to you -- and I am not suggesting that you have not read any articles that are public knowledge -- is that these companies, by having control over the United States market price, can then go out into the Middle East and into Venezuela and make substantial profits in these countries because of

the fact that as long as you have pro rationing in the United States they have an umbrella which affects the whole world price of oil. Now, after twenty some years in the oil business, don't you think there is a little truth in that?

MR. LILLEY: Well, in the first place, I can't agree again to the premise that these companies you have named control the oil industry in the United States. It is a very active and competitive market. That is the first thing. If you imply that that control, as you say in your statement, is used to carry a broader system which is based upon, I gather, pro rationing in the States, I don't know.

MR. PATTILLO: Do you agree with me, from your knowledge of the business, that if the mark-up between finding cost or replacement cost-- let's use replacement cost -- that the mark-up between replacement cost and selling price was the same in the Middle East as it is in Texas, the Montreal refinery would be having a large laid-down price to pay for products?

MR. LILLEY: Let me check on that. Oil, for instance, in the Middle East would have a great geographical disadvantage. The prices are not tied into Western Hemisphere prices and don't move in the same directions. Its so-called low cost of finding is maybe not as low as it may appear.

You are probably familiar with the fact that in the Middle East you not only build roads and electrical systems and highways, hospitals --

MR. PATTILLO: You buy a lot of Cadillacs, I understand.

MR. LILLEY: Well, it is a more expensive operation, and there is certainly not a correlation between the prices in that area and the prices in the Western Hemisphere as such.

MR. PATTILLO: It isn't to the disadvantage of Canadian crude laid down at Montreal, according to you refiners.

MR. LILLEY: That is because of transportation.

MR. PATTILLO: As a refiner in Montreal, do you agree that so long as you have pro rationing in Alberta and pro rationing in Texas and the southernpart of the United States, and as long as Canadian crude is the crude used as far east as Toronto, the Montreal refiners using foreign crude have a built-in area of protection?

MR. LILLEY: I don't know that that is a built-in area of protection. I think we have tried to point out that we believe that with the existing transportation and price arrangement in the world foreign crudes can move into the periphery of Canada at prices which make it difficult for land-locked crudes to come in and compete.

MR. PATTILLO: But you agree that they do get their crude laid down at the Montreal refinery cheaper than the Ontario refinery price of Canadian crude laid down at his refinery?

MR. LILLEY: I will have to check that. Yes, I say that is essentially correct.

MR. PATTILLO: And yet there is no appreciable difference between what the consumer is paying for the products in Ontario or in Quebec or in the Maritimes. Would you agree with that?

MR. LILLEY: No, sir, I don't think I would. I would like to have Mr. Farquharson reply to that. This refining business is a very complex part of the industry.

MR. PATTILLO: I would just like Mr. Farquharson to tell me -- I am not talking about what the refiner gets -- is there any appreciable difference in the product prices in Ontario, Quebec and the Maritimes?

MR. FARQUHARSON: Mr. Pattillo, there are several types of businesses concerned in this matter, and we feel we would like to prepare some figures on it. We can't answer that at the moment.

MR. PATTILLO: I will tell you, Mr. Farquharson, just exactly what I have in mind. Mr. Brown said the other day that the source of the crude wasn't what governed the ultimate price paid by the consumer for products but that the

ultimate price paid by the consumer for products was governed by the laid-down import price of imported products. Now, I want to know, not only the information you told us you would give us, do you agree that the price charged for products in Ontario, Quebec and the Maritimes bears any relation to the laid-down imported price of imported products?

MR. FARQUHARSON: No, basically the cost of crude oil delivered into the area and the operating expenses dictate the level of the prices that must be achieved under sound business management. The cost of imported products has undoubtedly an effect; it was brought out before the Commission that the competition within the industry and from other sources of energy are also significant factors in determining the significance that can be achieved in the Montreal area.

MR. FRAWLEY: What I am interested in is, according to your brief and one of your exhibits, it is costing you to bring this crude through the Portland-Montreal line in the case of Middle East crude about 10¢ more a barrel than if you brought it down by tanker directly to Montreal.

MR. FARQUHARSON: That, I don't think, is in our brief.

MR. PATTILLO: Well, it is an exhibit, one of your exhibits, the differential of laid-down prices.

MR. FARQUHARSON: I think that just exhibits what factors the different rates would have.

MR. PATTILLO: If I haven't got that correctly, Mr. Farquharson, I apologize. I was looking at your Exhibit F. You have via the Portland pipeline, via tanker to Montreal, and you say in the case of via the Portland pipeline, in the case of Arabian oil, USMC minus 20, using the pipeline, 3.39; minus 40, 3.18; minus 60, 2.98. Via tanker to Montreal the comparable prices are 3.30, 3.09, 2.87. If you look at the others, it seems to me that that is what happens all the way along the line. Now, the way I read that is, based on what you have just told me now, the Canadian consumer is apparently subsidizing that Portland-Montreal pipeline. Would you agree that he is?

MR. LILLEY: Well, I was talking to our economic group who have worked on this, and I think the answer is that -- we may have to put some corrections into this record -- this is primarily to illustrate the effect of changing tanker rates and the substantial portion of cost they bear in terms of delivered product. One of the intangibles that hasn't been mentioned here is that you can use large tankers from Portland which can be operated cheaper or very often chartered cheaper, whereas with the draught coming up the river you use smaller vessels, and the waterways into Montreal limit

the size of craft. I think if you want to go into that we should give you some figures on it.

MR. PATTILLO: I think you should do that; and also I would like you to deal with the Maritimes, because there you most certainly don't have the cost of the Portland line and you have a lesser price to get into Halifax than Montreal, and yet to my amazement the prices are about the same and therefore the price of products to the consumer should be the same.

MR. LILLEY: I don't know the subject sufficiently well to be absolutely sure of this statement, but I would suggest that in an area which is more sparsely populated, and lower levels of consumption in large groups, you find your cost of distribution rises materially as opposed to the more concentrated areas.

MR. PATTILLO: Well, I know your company does business down there, so I would like you to look into it and give us some comparable figures.

MR. LILLEY: We would be glad to do that.

MR. PATTILLO: Mr. Lilley, has your company given any consideration as to what its answer would be if it was asked to sign a throughput agreement for Canadian crude going into Montreal?

MR. LILLEY: Yes, sir, we have, and I think our answer would be that we would see no advantage to us in signing a throughput arrangement. We feel that the pipe line in the long run, as our brief has indicated, would not be economic, and we do not see whereby we would gain by putting the product through there, whereas it may be more economic elsewhere in the long term.

MR. PATTILLO: Have you given any thought, as a company, to discontinuing the use of the products line from Montreal to Toronto and thereby giving a greater market for Canadian crude?

MR. LILLEY: I would like Mr. Farquharson to handle that.

MR. FARQUHARSON: No, we haven't.

MR. PATTILLO: Would you agree with me that if that pipe line was discontinued there would be a greater market immediately for Canadian crude?

MR. FARQUHARSON: No, I don't think you can discontinue the Trans-Northern pipe line as it is the only practical means of transportation out of the Montreal area and also out of the Toronto area.

MR. PATTILLO: That line is capable of being made to flow both ways, isn't it, Mr. Farquharson?

MR. FARQUHARSON: Yes, it is possible.

MR. PATTILLO: So that, let me put this to you: do you agree, first of all, if the line was simply discontinued and not used at all that immediately the market for Canadian crude would go up because the refiners in the Toronto area would have a larger demand for products?

MR. LILLEY: No, I don't think so.

MR. PATTILLO: Well, where would the gap be filled? There are 60 some thousand barrels a day, aren't there, going over that product line?

MR. LILLEY: There is approximately

60,000 a day, yes.

MR. PATTILLO: If you suddenly stopped, the line would dry up, and how would it be filled if Ontario refiners didn't fill it?

MR. FARQUHARSON: You have got your limitations; I think you are getting into a rather theoretical situation here.

MR. PATTILLO: Perhaps I am. Can you tell me how much capacity there is at the present time in Canadian refineries in Ontario which is not being presently used?

MR. FARQUHARSON: Yes, I think that is shown in our brief.

MR. LILLEY: While that is being looked up, I would like to comment on one thing: once you fill a products pipe line like that you tend to commit your operation to the use of that line, and many of the supply points and tankages that go with that distribution are linked with that line. If you are talking of the immediate future, of finding the ultimate means of supply, some of the points are not always easily reached from the point of view of distribution.

MR. PATTILLO: Yes, but it has happened before that companies have traded products and helped one another out at times?

MR. LILLEY: At times, but with these points which tend to be away from the waterways

and normal services, we have to depend on other means of transportation.

MR. PATTILLO: I can appreciate what I am putting may not be a feasible thing, but I must canvass, in my opinion, every possible solution.

MR. LILLEY: Surely.

MR. FARQUHARSON: Mr. Pattillo, I don't think we have that information.

MR. PATTILLO: I wonder if you would get it and file it with the Commission?

MR. FARQUHARSON: Yes.

MR. LILLEY: Surely, we can get it for ourselves, but I am not sure how we get the figures for the rest of the industry.

MR. PATTILLO: Perhaps you could have one of those informal chats.

Have your company given consideration to their views on the advisability of the Canadian government imposing an embargo on foreign crude coming into Montreal and, if so, would you please express your views on that?

MR. LILLEY: We certainly made no study on the subject of placing an embargo on the importation of foreign oil. Obviously, in the short term it would have effects which would be difficult to evaluate because I don't know how we would supply our markets, with the dislocations that would occur. Embargoes are tentatively

restrictive, and, for the reasons pointed out in our brief, we do not think they are in the long range interests of Canada. Certainly, what the long range effects would be, I hesitate to conjecture. I do not think they would be beneficial.

MR. PATTILLO: The United States has an import tariff of 10½ cents a barrel on crude: if the Canadian Government imposed a tariff of an equal amount, do you think that that would have any effect and, if so, what effect,on the importation of foreign oil to the Montreal market?

MR. LILLEY: Well, yes; I think, certainly, that at some point a tariff would tend to change your economics. I am not able to say at what point it would change. Whether the United States type of tariff would be sufficient, I don't know. Certainly, the more costly foreign importation becomes, the more economical things tend to be.

MR. PATTILLO: Have you given any consideration to, perhaps, using a quota system which would not be a complete embargo, but which would simply restrict the per cent of importation into the Montreal area?

MR. LILLEY: Again, we have not gone into detail on this type of study to that extent. I think our initial reactions would be that quota systems are difficult to administer and tend to

create inequities. South of the border of Canada there are some problems arising through activities of Captain Carson in that connection. It is not an easy thing to have quotas, voluntary or involuntary, and administer them. Also, when considering quotas on crude oil, you have to consider quotas on product, or another inequity begins to arise, and then you get into a number of people who would like to get into the business, and have quotas on them, in order to arrange a favourable balance in the country. How you determine what products could be justified from coming in outside these quotas and who should get them -- it is an extreme administrative problem; the difficulty is one of administration.

MR. PATTILLO: Does your company at the present time import any finished products into Canada and, if so, would you please give us particulara of that?

MR. LILLEY: No, we are not importing finished products into Canada at all, with the exception of a very minor amount of special lubricating oils; that is a very minor quantity.

MR. PATTILLO: And those are simply lubricating oils that your refineries are not equipped to run themselves?

MR. LILLEY: That is right. We do most of our lubricating through purchasing and

reblending and compounding in our own plants, but the bulk of our business is done in Canada in our own refineries, and the other is so small that it is inconsequential.

MR. PATTILLO: Mr. Lilley, would you agree with Mr. White when he said yesterday that he thought there was probably more control exercised in the United States over the oil industry, in that country, than there is exercised by Canada over the oil industry in this country?

MR. LILLEY: Well, I haven't tried to analyse it too deeply since I arrived here. I had not thought about it much before,but, certainly, I would say, if you call control a voluntary import programme, with certain side effects, I would think more control exists at the moment for voluntary import programme in the United States very much in the same way. I think the answer to your question is yes.

MR. PATTILLO: Well, what do you say as to the advisability of having some authority in Canada that had peculiar and well-informed knowledge of the oil industry which was under a government agency?

MR. LILLEY: If I may, I would like Mr. Bentley to answer that.

MR. BENTLEY: Well, really what you are talking about now is a national energy board

or some authority which would have some jurisdiction over the oil industry as such. Our position is pretty well set forth in the brief that has been filed. We believe that, historically, both in the United States and in Canada, legislation affecting the petroleum industry, that is crude oil and refining and transportation, has come about when a need arose to meet specific requirements. That is our position on that. We feel, in so far as the oil industry in Canada is concerned at the present time, there are plenty of rules and regulations, both dominion and provincial, as well as municipal, and, frankly, we cannot see how a national energy board is going to materially assist, in fact, we feel that it would impair the effectiveness of the oil industry as such.

MR. PATTILLO: Do you think it would have any effect on the consumer?

MR. BENTLEY: It could very well have a very serious effect on the consumer if it listened to political considerations which we fear it might have to listen to.

---A short recess.

THE CHAIRMAN: Gentlemen, the Commission will now resume its hearing. Mr. Pattillo?

MR. PATTILLO: Thank you, Mr. Chairman.

Mr. Farquharson, when I was asking for these figures about the pipe line, Portland to Montreal vis-a-vis bringing in by tanker into Montreal, Dr. Hearn called to my attention the fact that perhaps I was not putting the matter fairly, because I was forgetting that the Montreal market would be frozen and not attainable by tanker for some months of the year and, as a necessity, you would have to build up tankage if you were simply going to use the water route. When you are preparing those comparative figures, would you take that tankage into consideration, so that the figures will be truly comparable?

MR. FARQUHARSON: Very well.

MR. PATTILLO: Now, I had neglected to ask -- I thought your Exhibit F did show it, but it has been suggested to me that it does not -- what does it cost you, laid down in Montreal, at the present time, for your various crudes?

MR. FARQUHARSON: First of all, I will give you the laid-in cost, plus delivered in Montreal. It is \$3.06.2. The laid-down cost of our Venezuelan crude is \$3.10.6 via Portland and \$3.9.6 direct.

MR. PATTILLO: Now, have you any long-

term contracts with your present suppliers, or any of them?

MR. FARQUHARSON: No. Two years, we call that a long-term contract.

MR. PATTILLO: You call two years a long-term contract, and you have none?

MR. FARQUHARSON: We have a two-year contract.

MR. PATTILLO: Oh, you have a two-year contract. That is running two years from now?

MR. FARQUHARSON: Yes.

MR. PATTILLO: Now, I have a few questions I would like to ask you:

Do you think that some central place that had collected and more up-to-date and current statistical information about the oil industry and its operations would be of any value to the industry?

MR. BENTLEY: We agree that it would.

MR. PATTILLO: What would be your company's situation if the Canadian crude were substituted, at Montreal, for the crudes you are now using? Would you be faced with any capital cost changes in your refinery to make it possible to use Canadian crude?

MR. FARQUHARSON: No, we could use Canadian crude in our refinery. Part of our treating equipment would probably become obsolete,

which we have in use to run sour crude.

MR. LILLEY: I might mention there is some cost which would be in relation to some of the tankers that would have to be disposed of, but that is a matter of conjecture as to what it would cost to dispose of our charter.

MR. PATTILLO: Has your company made any survey of the market for heating oil in Ontario and Quebec, having regard for the fact that natural gas is now entering that market?

MR. LILLEY: Yes, we have.

MR. PATTILLO: Would you please file that survey with the Commission?

MR. LILLEY: Be glad to do so.

MR. PATTILLO: Thank you. Is your company interested at all in the sale of natural gas?

MR. HOWELLS: Not at the present time.

MR. PATTILLO: The gas that you have, then, is associated gas?

MR. HOWELLS: All associated gas.

MR. PATTILLO: Those are all the questions I wish to ask, Mr. Chairman.

THE CHAIRMAN: Thank you, Mr.Pattillo. Mr. Frawley?

MR. FRAWLEY: Thank you, Mr. Chairman.

Mr. Lilley, this afternoon you told Mr. Pattillo that presentday conditions were keeping

Alberta crude, Canadian crude, out of all the north central States area. At least, that was the note which I made.

First of all, is that roughly what you said and, if so, would you expand upon it?

MR. LILLEY: In the first place, Mr. Frawley, yes, that is roughly what I said, and I had reference to one thing, first, which is the economic recession, which you are familiar with, in the United States, which has slowed down the rate of consumption, a lot of it in the States which we had under study.

Also, you are familiar, I am sure, with the current surpluses of crude oil and products in the United States, which, I think, as far as inventories are concerned, are gradually correcting themselves.

You also, I am sure, are familiar with the so-called voluntary import programme.

All of these things, I think, had a tendency to impinge on the movement of oil south of the border. I think our brief touches on that.

MR. FRAWLEY: You cannot very reasonably look for any too great improvement of our exports into the Pacific West Coast area, can you?

MR. LILLEY: I think there is a possibility of an increase there, particularly in the

Puget Sound area, rather than further south. There the oil is more favourably situated, from the standpoint of transportation. I think, again, that our brief tends to say that that is a possible market. Wherever oil in competition with seaborne oil is found, it puts you in a slightly less favourable position than the more land-locked areas which have their oil available to them.

MR. FRAWLEY: If you are going to classify them as No. 1, No. 2 and No. 3, which would you say is our most favourable objective for our export, at the moment?

MR. LILLEY: I would think our most favourable objective, as stated in the summary and in this submission,is that which we indicate, the three States looking to us, being the ones which, in the long term, would be the ones most likely to use the oil.

We also,of course, indicated the growth in Canada, but that is not the line of your questioning, I take it.

MR. FRAWLEY: Oh, you look upon the middle States as the No. 1 objective, but you say there are conditions there which will delay it?

MR. LILLEY: Well, Mr. Frawley, I think I do say that, but I cannot say how long they are going to delay it. I cannot tell.

Economic forecasting is not one of my

specialties, and how long this recession is going to last I wouldn't know.

MR. FRAWLEY: I just want to get a proportion and what you think is our best and then our second best and so on. So you think the best is, perhaps, the middle States?

MR. LILLEY: Yes.

MR. FRAWLEY: And that is subject to the qualifications you have just indicated.

What would be our second best?

MR. LILLEY: Well, we are leaving out Canada and I would say the Puget Sound area.

MR. FRAWLEY: Well, Mr. Lilley, this, perhaps, would be an appropriate time to tell you about some bad news that came over the wire today. Today there is a dispatch, which says this:

"The administrator of the government's
"crude oil import program hinted curbs on
"west coast companies will be tightened
"by the end of June.

"Capt. Matthew V. Carson, Jr. ---"

Is that the same Capt. Carson you were speaking of?

MR. LILLEY: Yes, sir.

MR. FRAWLEY: " --- told a press confer-
"ence that west coast quotas will be re-
"viewed this month and there could possibly
"be a cutback ordered by the time present
"allocations run out on June 30.

"West coast importers were brought "under the quota program for the first "time in January. They were asked to "voluntarily hold their imports to an "average of 220,100 barrels daily during "the first half.

"For the first three months west "coast imports averaged only 152,000 barrels "daily -- 68,100 barrels below the recommended "level. Earlier this week a dozen west "coast firms asked for new authority to "bring in 45,100 barrels daily.

"Capt. Carson conceded original west "coast quotas may have been too high and "said the coming review would determine how "far to cut back allocations, if at all, "and how to handle the new quota requests."

Now, it would not be an overstatement to say that that is not too promising?

MR. LILLEY: The only consolation I take from that is that he used the word "hint", but I would agree that it is not too promising; and, again, I say it might be a short-term rather than a long-term situation.

MR. FRAWLEY: That is very difficult to say, though?

MR. LILLEY: It certainly is.

MR. FRAWLEY: What is our third best, or

is there any left?

MR. LILLEY: We mention, in our brief, the expansion of the three-state to a six-state area, in a longer term, although, of course, that is quite a few years off. That sums up the situation as far as we have analysed the problem.

MR. FRAWLEY: All of these recommendations that you have indicated, as to where we could put our crude, all of those suggestions are made within the context that you keep Montreal on foreign crude?

MR. LILLEY: Essentially, for the present, that is it.

MR. FRAWLEY: Looking at the Ontario market, because you do say we should find some expansion in the Ontario market, what is the size of your Regent refinery in Toronto?

MR. LILLEY: The rated capacity is 20,000 barrels per day.

MR. FRAWLEY: That is not a very large outlet?

MR. LILLEY: Well, it is a lot larger than it was. For the record, I would like to have Mr. Farquharson read what we have done to that plant or what has happened to it since we started.

MR. FARQUHARSON: The figure I have here, for January 1st, 1956, was a rated capacity

of 14,000, and that has been increased recently to 20,000. Regent ---

MR. LILLEY: I believe it is around 7,000 barrels.

MR. FRAWLEY: What were the sources of supply for that refinery in 1956, 1957 and 1958?

MR. FARQUHARSON: You want the source of crude oil for that refinery from 1955?

MR. FRAWLEY: Well, you can give me 1955, 1956, 1957.

MR. FARQUHARSON: In 1955 -- these are in thousands of barrels daily -- there was 1,300 barrels a day of Canadian crude oil and also 5,900 barrels of Trinidadian crude.

In 1956, 7,200 barrels a day of Canadian; 5,700 barrels a day from Trinidad.

In 1958 we propose to run 15,600 barrels a day of Canadian and 2,900 barrels a day of this Trinidad crude.

MR. FRAWLEY: How does the Trinidad crude reach Port Credit?

MR. FARQUHARSON: How did it? It reached it by tanker.

MR. FRAWLEY: But not all the way. It was transferred some place, I suppose?

MR. FARQUHARSON: Yes, at Montreal; transshipped.

MR. FRAWLEY: You would propose also to

transship that quantity of Trinidad crude in 1958?

MR. FARQUHARSON: Yes, a small amount.

MR. FRAWLEY: Why does even that small amount have to go to Port Credit?

MR. FARQUHARSON: Mr. Frawley, we inherited a contract when we obtained the Regent Refining Company, which amounted to approximately two million barrels a year of this Trinidad crude oil, and we have been able to reduce that to this figure of 2,900 barrels a day, which is approximately a million barrels. We still have some outstanding tanker commitments for the transportation of that amount of crude oil.

MR. FRAWLEY: Is it a matter of a contractual commitment that you cannot avoid?

MR. FARQUHARSON: That is true. We are honouring some contracts.

MR. FRAWLEY: That is when you had some dealings with a company in Trinidad, wasn't it?

MR. FARQUHARSON: The original contracts were made with a company in Trinidad.

MR. FRAWLEY: I see. In addition to that, though, you use the Trans-Northern products line?

MR. FARQUHARSON: That is correct.

MR. FRAWLEY: Why is that? I will put the general question: why do you use the Trans-Northern products line?

MR. FARQUHARSON: Well, our whole system was built up prior to the Canadian crude oil coming into the picture. Our refining capacity was all located in Montreal and it was absolutely impossible to transport that amount of material by tanker at that time and the Trans-Northern Pipe Line was conceived.

MR. FRAWLEY: Perhaps I have not put my question very clearly. You are using that line to supply your Ontario market with products?

MR. FARQUHARSON: That is true.

MR. FRAWLEY: Which are over and above what you manufacture at the Regent refinery?

MR. FARQUHARSON: That is correct, a certain amount.

I would point out that we are running this refinery at Port Credit at top capacity in the summertime. This year, in the first part of the year, we were not able to reach it, running it at top capacity. I would like to say that we are not running the Montreal refinery at maximum capacity.

MR. FRAWLEY: Well, of course, every time you put a barrel of products through the Trans-Northern line, you are using that line to enable Venezuelan crude to fight Albertan crude. There is no doubt about that?

MR. LILLEY: Mr. Frawley, Mr. Farquharson

does not seem anxious to answer that one. I think the answer is, essentially, that it certainly aids the movement in the Venezuelan crude, westward. I think, on the other hand, as I have mentioned earlier to Mr. Pattillo, we have certain distribution arrangements which are difficult quickly to change; in other words, our terminals are fed from that line, in part, and it is a better method for us to operate in the way in which it was originally conceived.

That is the immediate picture. In the long term, I think, we are tending to move further eastward out of the Port Credit works, and I want to stress again that we are running Port Credit pretty much on top, whereas Montreal is not; so, in the long pull, we would probably tend to increase our Port Credit refinery.

MR. FRAWLEY: I was thinking that your Port Credit refinery is not big enough.

MR. LILLEY: Well, if the facts were reflected as they have been in the market, we would be moving along with our capacity.

MR. FRAWLEY: How far short is Port Credit of manufacturing the requirements for your Ontario market?

MR. LILLEY: I will see if we have that figure.

I am afraid we will have to table that.

We will get it for you.

MR. FRAWLEY: I am going to make a suggestion to you and I want you to take it as being made quite seriously: refining companies, for many years, have been engaging in product exchange, haven't they?

MR. LILLEY: Yes, over a period of time, certain refineries have.

MR. FRAWLEY: Well, I can remember that you did it in Alberta, before you had your own plant.

MR. LILLEY: That is correct.

MR. FRAWLEY: You had an exchange arrangement with Imperial Oil.

MR. LILLEY: I am not sure about that, but we have made exchanges.

MR. FRAWLEY: Why could you not make a products exchange in Ontario to take care of the products that you are short out of your Regent refinery?

MR. LILLEY: It is certainly worth studying. I have not looked at that particular area. If we can find someone with offsetting capacity elsewhere, I would think it is a feasible suggestion.

MR. FRAWLEY: We certainly ought to bend every effort, since Captain Carson is now going to do us in if he can.

Now, I think you told Mr. Pattillo again this afternoon that it would cost the Canadian consumer more if our oil goes to Montreal, and I am wondering what you mean by that.

MR. LILLEY: Well, it is our opinion that -- before I say this, I am going to say that I do not have a detailed study. We operate with a comparatively small staff of people in the field of economics and we have done the best we can with this presentation, and we are glad to come forward with anything further that we are asked to supply; but our general opinion, based on the rather brief preliminary studies we have made is that the cost of operation of a pipe line of some 2200 miles and laying it down in Montreal, a place which can be supported by seacoast transportation, will not prove to be economic and will tend to raise the price of delivered crude in that area.

MR. FRAWLEY: But you have a products price, you have a tank waggon schedule now that must be related to your present laid-in cost of Venezuelan crude.

MR. LILLEY: Well, I would like to hope that were always so. I am afraid that our tank waggon price is probably in no way related to the measure and extent of our project and, if we were living in an oil Utopia which would give

us the return, we might be better off.

MR. FRAWLEY: I did not mean that the tank waggon price in Montreal was posted, having regard to what it cost you plus a mark-up. As a matter of fact, you don't even post it at all, probably. Imperial does it, as being leaders in Montreal.

MR. LILLEY: We post our own price.

MR. FRAWLEY: You post your own price?

MR. LILLEY: As far as I know.

MR. FRAWLEY: But you always post the same as Imperial?

MR. LILLEY: I think this goes back to something I said earlier. I am not sure that last statement is correct.

We post the price we think we can obtain for our product, but I think we have to accept the fact that fuel prices do tend to seek a level more or less comparably, because you are selling commodities in the same market. However, the posted price versus tank waggon price is not exactly the whole story in the sale of products.

MR. FRAWLEY: Mr. Pattillo was discussing with you, this afternoon, whether or not the import of products from the United States, either actual or potential, had anything to do with setting the posted price in Montreal, and I was not too clear as to the answer which Mr.

Farquharson gave him.

Is it a fact that the price which is charged in Montreal for products is governed by your judgment of the competitive force from American import, whether that is an actual or potential import? Isn't that so, Mr.Farquharson?

MR. FARQUHARSON: The import price would have a tendency to set the competition; but you have to look at the whole range of prices in looking at that figure.

MR. FRAWLEY: That's right. But you told me, a moment ago, that is not a case of working out the refinery cost and then marking it up.

MR. FARQUHARSON: No, basically it is the cost of the crude oil, delivered, and operating expenses, which dictate the level of prices which must be achieved.

MR. FRAWLEY: I put it to you that even if your Alberta crude in Montreal costs you more -- and I am not admitting it will -- but assuming, for the sake of this question, that it may cost you more than the Venezuelan crude, I put it to you that it is not necessary for you to increase your range of product prices merely because you may have a higher laid-in cost of crude.

MR. LILLEY: I would like to make this comment: I think if you read the first quarterly reports of most of the oil companies operating in

Canada you will find that their earnings are not as high as we would like to see them, by a long way. In fact, they have suffered material losses in previous years, in many cases.

It is difficult to say what effect an increase in costs would have or a decrease in the margin of profit. You have certain desires or obligations to take care of your shareholders; you have certain ideas about the progress of the company and about expanding your facilities and capacity, and all of these things require an inflow of capital, and any time your costs go up, your ability to do the things which you had contemplated goes down; so it would be hard for me to accept as a fact that an increase in the price of crude would have no effect on anything. Generally speaking, it would have a tendency to force your prices up, in a normal market.

MR. FRAWLEY: Your laid-down costs of crude at Port Credit: you have a higher laid-down cost of crude at Port Credit than you have as a laid-down cost of crude at Montreal.

Now, that is true, isn't it, to start with?

MR. LILLEY: Yes.

MR. FRAWLEY: But your posted tank waggon prices, again, with the limitations on them -- but that is the only measurement I have got -- your

posted tank waggon prices in Montreal and Toronto are the same, just a matter of a decimal point.

MR. LILLEY: Essentially correct.

MR. FRAWLEY: Now, then, that being the difference, I put it to you that you have got more money to play with in Montreal than you have in Toronto.

MR. LILLEY: Well, I suppose the answer to that question might be that we are not happy about the condition of our receipts in the Ontario market; but we are in the oil business to stay and we have to put up with the forces of competition as they exist.

I would like to cast a note of caution here, which is that your tank waggon prices are an index. That price is not necessarily, though, what we would call a net back figure.

MR. FRAWLEY: But you have some difference between the selling price of the product and the laid-in cost of the crude, to the extent that it is a guide, and it looks as though you have a much better picture at Montreal than at Port Credit. Is that so?

MR. LILLEY: As you describe it. That does not mean it is a desirable economic balance on which to operate.

I will mention one thing: I think we are clear, all of us, that we sell products other than

gasoline.

MR. FRAWLEY: But when I look at everything, I find posted in the National Petroleum News, furnace oil and heating oil, and they are all exactly the same, some of them; and, in one case, just a difference of a decimal point.

Now, I put something to you: a tanker in the open sea is more vulnerable to enemy attack than an inland pipe line, isn't it?

MR. LILLEY: The Second World War proved that.

MR. FRAWLEY: And we are told, from what we read in the papers, that the Russians have a lot of submarines?

MR. LILLEY: I have read that.

MR. FRAWLEY: Now, I put it to you that it should be worth something to Canada, something very materially to Canada, to have an assured overland supply of crude oil to the very important Montreal market rather than depend upon these tankers that run back and forth in the North Atlantic.

MR. LILLEY: Mr. Frawley, I am not a military strategist and I certainly do not feel that my knowledge of international affairs or the Kremlin's future plans are such that I feel competent to comment on that. Certainly, if the Government of Canada felt the way you do, I should

hardly argue with that policy.

MR. FRAWLEY: Then, as a couple of amateurs, it is pretty difficult to disagree with the question I put?

MR. LILLEY: Based on the fact that there is a real picture in what you say, yes.

MR. FRAWLEY: Now let us get back to Puget Sound, notwithstanding Captain Carson. You are only going to give us 20 per cent of ---

MR. LILLEY: May I say that is not "we". That is the Texas Company.

MR. FRAWLEY: That is not "we"?

MR. LILLEY: Yes.

MR. FRAWLEY: You want to be a good citizen in Canada, and I am sure that not only you want to be but I am sure you are good citizens in Canada; but do you think you would be bad citizens down in the State of Washington if you gave us considerably more than 20 per cent at that refinery?

MR. LILLEY: As far as the State of Washington is concerned, as long as they get the quality of products they should have for their consumption requirements, I don't suppose it matters too greatly to them. They are not producers. I think the problem has more than that in the relationship with other areas and their requirements and the balances and adjustments which must be fair.

I think this is a step in the right

direction, if I may say so. It is a more recent development than the quantity indicated. I would rule out other things which could happen in the future.

MR. FRAWLEY: Mr. Lilley, do you know what bothers me more than anything else about the Puget Sound area? When you are declining, when you are failing to increase your export of crude it must be admitted that you are conforming to the policy of the administration in Washington, aren't you?

MR. LILLEY: Yes.

MR. FRAWLEY: That is so.

MR. LILLEY: Not, may I say, specifically Canadian crude, I was referring to all crudes generally.

MR. FRAWLEY: So it is rather understandable, isn't it? After all, the criticism is finished. In the light of this policy, taking it as a fact, it is very understandable that those refiners in the Puget Sound area are not going overboard for Canadian crude.

MR. LILLEY: I think they have several problems, and I think Canadian crude is one of them.

MR. FRAWLEY: They may disagree, because you say the Texas company as a Texas company doesn't want any part of this voluntary restriction of import.

MR. LILLEY: I say essentially in this case they have a refinery there and they therefore have to import it, and it would restrict them in their operations, I would think.

MR. FRAWLEY: And they don't support this organization called the Independent Petroleum Association of America.

MR. LILLEY: I would think not.

MR. FRAWLEY: But, in any event, you don't go along with that idea, but it is the law of the land, you might say, and psychologically it is a deterrent, I take it, in your importations of Canadian crude.

MR. LILLEY: I think I should amplify this. I don't like to see myself speaking for the Texas company here. I think their general attitude is that they are opposed to restrictive programs against importations. I don't think that they feel inhibited importation is a good thing.

MR. FRAWLEY: That leads us to the conclusion that it is a very thin lead we are relying on, this export.

MR. LILLEY: I must say, as you quoted the situation as of this afternoon, these changes are certainly restrictive, and if I thought they were going to exist for a period of time I would be extremely concerned about the alternative.

MR. FRAWLEY: And in regard to the Province of Quebec, isn't that the place we should be trying to place and sell our crude?

MR. LILLEY: You can dispose of it elsewhere. If you can dispose profitably in the

long-range in another area, that might be the better balance for the future.

MR. FRAWLEY: And the question is how long should we wait?

MR. LILLEY: That, Mr. Frawley, is the question.

MR. FRAWLEY: When did the voluntary restriction go in?

MR. LILLEY: I think the best answer I can give you is sometime last year.

MR. FRAWLEY: I have the answer from the Conservation people -- July, 1957.

MR. LILLEY: Yes.

MR. FRAWLEY: And Group 5 was included in the restriction?

MR. LILLEY: Yes.

MR. FRAWLEY: And then we found we were thrown into Group 5.

THE CHAIRMAN: By that you mean, Mr.Frawley, Canada?

MR. FRAWLEY: Yes.

MR. LILLEY: May I say that it is my understanding that Canada was never specifically outlined in this particular situation, Canada was really not made an exception.

MR. FRAWLEY: That is quite right; we were never excepted by name.

MR. LILLEY: That is right.

MR. FRAWLEY: But I understand there was a point up to which, as we felt that the voluntary restriction program didn't affect us at all, we thought there were to be no restrictions against our imports.

MR. LILLEY: Yes.

MR. FRAWLEY: But later we were included, at least we were not excepted, from the voluntary restrictive program.

MR. LILLEY: Yes.

MR. FRAWLEY: Since July, 1957, we have been living with this program, and, according to this dispatch, it looks as if it is going to get worse instead of better.

MR. LILLEY: I can't quarrel with the dispatch that you have read here as an indication that that could happen.

MR. FRAWLEY: And that is an area where our pipelines physically go.

MR. LILLEY: Yes.

MR. FRAWLEY: There is a pipeline physically going into the Ferndale area?

MR. LILLEY: Yes.

MR. FRAWLEY: And the other areas you have given us are rather long-term?

MR. LILLEY: I don't know how long-term. It depends on the change in economic conditions and the return to a growth rate which will support

additional usage.

MR. FRAWLEY: I appreciate the frankness of your answers, if I may be so bold as to say it. Will you please give me for the record the kind of crude you are importing into Montreal from Venezuela and elsewhere?

MR. LILLEY: Mr. Farquharson will do that.

MR. FARQUHARSON: Crude oil into Montreal?

MR. FRAWLEY: Into Montreal, yes.

MR. FARQUHARSON: Primarily Guanipa.

MR. FRAWLEY: Now, you told us this morning that in 1957 you took in an average 34,800 barrels daily.

MR. FARQUHARSON: Yes, that is in 1957.

MR. FRAWLEY: And you buy that from your affiliate in Venezuela?

MR. FARQUHARSON: We buy that from the Texas company.

MR. FRAWLEY: You buy it from the Texas company?

MR. FARQUHARSON: That is right.

MR. FRAWLEY: Are your dealings directly with the Venezuelan company?

MR. FARQUHARSON: We buy it from the Texas company.

MR. FRAWLEY: Do you know, when it leaves the port in Venezuela, whether it is consigned to McColl-Frontenac or to the Texas company?

MR. FARQUHARSON: It is consigned to McColl-Frontenac.

MR. FRAWLEY: And who is the shipper, the Texas company or the Texas Petroleum Company of Venezuela?

MR. FARQUHARSON: I will have to check on that.

MR. FRAWLEY: If you would be good enough to just prepare a little short answer on that. I would like to know whether you are buying directly from the affiliate or from the parent company, and I would like to know if the price at which you buy is always the posted price.

MR. FARQUHARSON: The price is the posted price.

MR. FRAWLEY: Does the Texas company refine in Venezuela?

MR. FARQUHARSON: I don't know.

MR. LILLEY: I will have to check that for you. I am not sure.

MR. FRAWLEY: Well, if it does, I would like a further piece of information as to whether or not the price at which it is sold to you is the same price at which it is sold to the refining subsidiary in Venezuela.

Now, what is the API gravity of that crude?

MR. FARQUHARSON: It is 31 gravity.

MR. FRAWLEY: What is the sulphur content?

MR. FARQUHARSON: The sulphur content is 1%.

MR. FRAWLEY: Mr. Lilley, on page 9 of your brief there is something I just want to ask you about. You say: "Also, it is not inconceivable that additional pipelines could be built into the West Coast area from inland United States producing centers." Would you mind telling me what you have in mind there?

MR. LILLEY: Well, there is one from the so-called four-corners area which is now going in. I am not sure that that has already been completed. It is always possible in some areas in the so-called southwestern producing areas that it is controlled more reasonably by reason of the shorter transportation haul to the West Coast. Outside of the four-corners, I don't know of any other. I am merely throwing that in as a possibility.

MR. FRAWLEY: On page 6 I read this statement: ".....from its inception and through most of the year 1957, the Canadian producing industry made impressive progress in finding outlets for its growing supplies, relative to the trends in other areas, until current short-term factors began to impinge upon nominations." Now, I don't say that is incorrect, but some of my people -- you speak of the impressive progress, and that statement is questioned, to put it politely. Can you comment

on that?

MR. LILLEY: I could probably quote from the text here, if necessary, but the rate of growth --

MR. FRAWLEY: Before you answer, would you keep in mind that we know about the results of the Suez crisis and the sales that followed, but other than that --

MR. LILLEY: This wasn't a matter of new markets, they were talking about percentage of growth, and it is indicated there that the production in barrels per day was 80,000 in 1950, growing to 356,000 in 1955, and in 1957 to 506,000 barrels a day, and the allusion made in our text to this, of course, was that that was the fastest growth rate of any producing area with the exception of Iran, and that particular situation in Iran was occasioned by the fact that they had a shut-down owing to some disagreement that had been going on for some time and the start-up from that point indicated an extremely fast growth. You would find historically that all the other areas there had not grown as fast, the United States, Venezuela, Iraq, Kuwait, Saudi Arabia.

MR. FRAWLEY: We were wondering if you could point to any new outlets we have obtained.

MR. LILLEY: I think the situation is primarily the growth rate in Canadian consumption, plus the fact that more Canadian refineries turn

to the use of Canadian crude in greater proportions.

MR. FRAWLEY: At the bottom of page 5 there is the statement:

"Canadian crude oil production in 1957
"amounted to 5.65 per cent of estimated
"year-end reserves,"

and you compare with Venezuela and you point out that Venezuela had about the same figure for the same year, being 6.34 per cent. Wouldn't it be fair to say that you must look at that in the context per well production per day, and the figures which I have, which I would ask you to agree with or otherwise, are: in the Middle East, 4,200 barrels per well per day; Venezuela, 250 barrels per well per day; Canada, 75 barrels per well per day. But that is a producibility figure, and actually in 1957 we were down to 38 produced barrels per well per day, and the figures that are given in your brief must be considered in the light of those well productions per day.

MR. LILLEY: I am not sure that I see the correlation between the number of barrels produced per day and the figures we have given on the amount produced in proportion to reserves. This may not be a particularly worthwhile index, but we thought it would show that Canada was following what appears to be a reasonable approximation of the world's pattern in the Western Hemisphere and was not down

to a very low level of production in proportion to reserves.

THE CHAIRMAN: On that point, don't you think that possibly that table could be somewhat misleading in its effect on the Commission? Not that it would be intentionally so, don't misunderstand me, but does Venezuela import any crude oil?

MR. LILLEY: No. The answer to that, to the best of my knowledge, is no.

THE CHAIRMAN: Does Iran?

MR. LILLEY: No.

THE CHAIRMAN: Iraq?

MR. LILLEY: No.

THE CHAIRMAN: Saudi Arabia?

MR. LILLEY: No.

THE CHAIRMAN: How much does the United States import?

MR. LILLEY: Roughly -- and I am just taking this out of the air -- about 1,200,000.

THE CHAIRMAN: And Canada imports a third of what the United States imports and we are spending $305 million to get it, and you have tried to relate that to the other countries on a basis of percentage reserve.

MR. LILLEY: We certainly had no intention of misleading you. We were doing this only in the light of trying to be helpful and to indicate

that we generally look at the amount of oil produced as opposed to reserves as one of the tests in the rate of growth in the world, and therefore we felt that the greater growth was an index of how well you were faring. If that isn't so, then I am sorry the text was misleading.

THE CHAIRMAN: I don't say it is misleading, but it could be if one didn't have regard to that point.

MR. FRAWLEY: That is all, Mr. Lilley. Thank you.

MR. COMMISSIONER BRITNELL: Mr. Lilley, in the matter of the national energy board, you say on page 1 of your brief that its establishment would encourage the encroachment of political and sectional considerations upon economic factors in regard to the industry; and then, again on the same theme on page 17, the brief says that the very existence of such a board would encourage various groups to seek specific petroleum policies in their favour. Now, my question is, would not the principal purpose of the board be exactly the opposite, that of avoiding such a situation?

MR. LILLEY: May I have Mr. Bentley reply to that?

MR. BENTLEY: Our position on this is that once you set up a board of this nature it is an open invitation for a section of the

economy, whether it is in oil or water power, to try to press their views to the extent that the government is asked to do something which may not economically be justified.

MR. COMMISSIONER BRITNELL: Let me put my question in a little different way to bring out the principle that I am after. Is it not possible that such an agency as a national energy board might very well act as a buffer between the political authority, that is the government of the country, and the various interest groups so that what eventually happens is that you reduce the cruder and more obvious forms of political pressure?

MR. BENTLEY: That, sir, is a possibility, but it has a danger, that by having the buffer there you have nothing done for two, three to five years. Our position is that I think you have to have specific legislation or be free to deal with specific problems as they arise and not set up an authority which would hinder the very thing you are trying to do.

MR. COMMISSIONER BRITNELL: My next question follows on one of the last questions asked by Commission counsel. On page 5 of your brief you say that statistical information on demand and refinery runs and inventories are not precise or recent enough to permit exact

estimates of the influence of recession and so forth. Does your company believe that the industry, and perhaps also provincial governments and provincial conservation boards, are presently rather handicapped, seriously handicapped, because of the lack of authoritative government forecasts, not statistics for the present, but forecasts of possible future demand for petroleum such as those that are produced by the United States Bureau of Mines.

MR. BENTLEY: We agree that is so. There is a need for some development in that direction.

MR. COMMISSIONER BRITNELL: Don't you foresee the possibility of some danger to business and industry arising from any reliance on such forecasts, and the more urgency there is the more likely there will be an additional margin of error that may occur from time to time?

MR. BENTLEY: You could have errors. But I think, sir, that what I was referring to was the same idea which was expressed in the report of the Gordon Commission, that the statistical services of the country, in so far as industry is concerned, could be more adequately staffed and more help given to them. That is what I was referring to.

MR. LILLEY: May I say that I think our primary position, and one I think Mr. Bentley has described, is that we feel a need for current and factual statistical information has developed rather than the forecast as to future plans. I think we all attempt to do our own forecasting.

---A short recess.

MR. COMMISSIONER BRITNELL: Mr. Lilley, I was on the point of confessing a certain trepidation in moving into this field of pro rationing, but my curiosity has got the better of me and, specifically with reference to pro rationing in Texas, is it a fact that pro rationing is ordered there by a government body?

MR. LILLEY: Mr. Britnell, I do not consider myself any authority on pro rationing. I am with you. It may be that Dr. Howells has some knowledge of the Texas method of operation. I really have not operated in Texas and I am not able to describe it.

MR. HOWELLS: I think, although Mr. Lilley has not operated in Texas, he has been closer to it than I have.

I believe it is governed by the Texas Railroad Commission. I stand corrected on that.

MR. COMMISSIONER BRITNELL: That was my understanding. Now, in whose interest does this government body operate the pro rationing? Is it in the interests of the Independents or the interests of the majors or in the interests of the consumers? Whose interest?

MR. HOWELLS: I think, sir --

MR. COMMISSIONER BRITNELL: Where does the pressure for it come from?

MR. HOWELLS: I think it would be comparable

to the situation in Alberta. It would be in the interests of industry --

MR. LILLEY: I might help out here: it is my understanding that during a period when the oil industry had fallen on evil times because of excess production, a potential threat to the reserves was noted in the general state of confusion, and the Railroad Commission attempted to take measures to conserve the reserves by conservation methods, and that was the concept of its operation as at the present time. I would say their function is that of a Conservation Board, not to waste or take out production which cannot be disposed of and not to overproduce fields.

MR. COMMISSIONER BRITNELL: Not to --

MR. LILLEY: Not to overproduce the fields and try to give them maximum life.

MR. COMMISSIONER BRITNELL: Essentially, at least, in its origin, it was a conservation measure?

MR. LILLEY: My understanding is that that is so, but I suppose it is, categorically, hearsay.

MR. COMMISSIONER BRITNELL: I take it that you would agree that, whatever its origin the Texas Railroad Commission and the other American authorities of a similar nature operating in other States reduce the supply by pro rationing but they have helped to keep up the American and the World price?

MR. LILLEY: Well, they certainly averted a distress condition which, I presume, would have an effect on price, at least in their particular areas. The world market price, I think, is open to some question, generally. There is not a cause and effect relationship necessarily there.

MR. COMMISSIONER BRITNELL: But, as far as the American price?

MR. LILLEY: These groups all work together, such as Conservation Boards; that is what they are for, in each area. I believe Louisana has its method and Texas has its method.

MR. COMMISSIONER BRITNELL: The general effect would be to put a sort of crutch under the market?

MR. LILLEY: In the specific area in which it is taking place. As I say, I am really not an authority on the subject.

MR. COMMISSIONER BRITNELL: Do you think, by the same token, a small producing country like Canada can achieve the same thing by pro rationing, speaking not of conservation but of holding its area up?

MR. HOWELLS: I believe, within the sphere of pro rationing, that certainly has a stabilizing effect.

MR. COMMISSIONER BRITNELL: Even when it has to meet world markets?

MR. HOWELLS: I was saying within the sphere of pro rationing itself. It would present, where you have crude within that orbit, if I may put it that way, it would prevent excessive competition within that particular sphere; but if that, as a whole, was carried forward to a meeting-place, then competitive forces would take place.

MR. COMMISSIONER BRITNELL: On page 5 of your brief, is it really correct to say that there was a displacement of a comparable volume of Alberta crude when, actually, a very considerable portion of the Saskatchewan crude goes to a rather highly-specialized market in St. Paul?

MR. HOWELL: That is true, sir. Since that is a medium gravity crude, there might be some question as to whether we could satisfy that and, of course, we have medium gravity crudes which might possibly meet that market and, in that sense, we might say it would displace the Alberta crude.

MR. COMMISSIONER BRITNELL: But there was no market for that crude, inthat market, prior to Saskatchewan moving in, was there?

MR. HOWELLS: I think that displacement was made as a result of the finding of that crude in Saskatchewan.

MR. COMMISSIONER BRITNELL: In general, was the sudden 1957 increase in Saskatchewan production a result of Saskatchewan's proximity

to markets as compared to Alberta, with a 10¢ or 12¢ price advantage, I believe we have been told, or was it due to the absence of pro rationing in Saskatchewan?

MR. HOWELLS: I think, sir, probably both those factors would have an effect.

MR. COMMISSIONER BRITNELL: A combination of the two?

MR. HOWELLS: Yes.

MR. COMMISSIONER BRITNELL: Going back to page 1 of your brief, the company suggests that it would be imprudent at this time to enter the Montreal market. I wondered under what conditions and at what stage in natural evolution you might consider it would be prudent to enter the Montreal market.

MR. LILLEY: I think that is a good question. I can give you a lot of conjectures, such things as a debacle in the Middle East which tightened world supplies and made this a long range project here; such situations as contemplated difficulties in Western Europe and Asia or the Middle East potential for crude and possibly -- anything that tended to make this all less likely to come to this area over a long period of time would tend to make a pipeline feasible to supply the needs of the market.

MR. COMMISSIONER BRITNELL: You would

have to have a situation, though, which would be somewhat longer than the Suez crisis?

MR. LILLEY: I would certainly think so. That was a short-term affair, as it fortunately turned out.

MR. COMMISSIONER BRITNELL: On page 8 of your brief, and I think you have mentioned it in the discussions since, the figure of net imports into the United States of about 1 million barrels daily in 1957: what was Canada's share of that? About 15%?

MR. LILLEY: May I check that, Mr. Britnell? 151,000 barrels a day, in 1957.

MR. COMMISSIONER BRITNELL: That is just about 15%, then. You suggest that these imports of 1 million barrels a day might be expected to increase to about 1,600,000 barrels daily by 1961.

Now, is it really much more than a very fine patriotic aspiration to think that Canadians would get a larger share, in view of the large reserves that are building up and have been built up in other parts of the world?

MR. LILLEY: I think one thing that would change, Mr. Britnell, would be -- at least, I hope would be, and our anticipation would be, that restrictions, voluntary or otherwise, would tend to ease, which certainly should free up some of the markets and, if we could depend on that, this is

a mineral resource problem, to be sure, and we might have an excess of these markets on a basis of continuity, which I submit is a very real problem.

If that happened, I think you would get some of the market. I would not be so optimistic to say how much. However, in the middle sectors we have been assured that there might be continuity, with refineries going into operation. This is in the realm of definite conjecture, I would have to admit.

MR. COMMISSIONER BRITNELL: On the point with respect to the possiblity of larger markets in District 5 or in the Puget Sound area, you say, on page 14 of your brief, that a reduction from USMC minus 20% to USMC minus 40% would reduce the landed cost of Venezuelan crude at Montreal by 12¢.

How much would such a reduction, from minus 20 to minus 40, mean in terms of Venezuelan crude, laid down in Puget Sound?

MR. LILLEY: Well, let me ask any of my associates here if we have such figures.

About 21¢.

This is a quick calculation. The USMC rate there would run about 1.06 and you would have to apply your plus and minus factors to that; about 21¢.

MR. COMMISSIONER BRITNELL: As against 12¢ on the Montreal market. Well, that sounds a little discouraging, in terms of getting into that market, since we have been hearing stories of minus 55% and we had one instance the other day of a tanker at 85%.

MR. LILLEY: If I could figure out what the tanker rate is today, I would be well on the way. It is over a year ago that the markets were around about USMC plus 200 and, since 1950 -- starting, in fact, since 1949, this market has had three periods of drastic ups and downs. The tanker market is extremely volatile. The tendency often is for construction to slow down, for ships to go to early retirement, scrapped and other usages and, as the growth of petroleum usage continues, the tanker system finds itself in a period of lag.

We are talking about the down side of USMC, using that as an index; and it could very well go the reverse way, and the longer distance you haul the crude, the more change there is in rate in the price of crude.

MR. COMMISSIONER BRITNELL: In view of the longer run, technilogically, is not the rate more likely, apart from the swing, to go down rather than up?

MR. LILLEY: Not against the present-day

situation, which I consider to be in a distress category, with tankers laid up and not in use; but, on the historical pattern, the use of larger and faster tankers means a lower operating cost which, in the long run, will probably have that effect, yes, on the rate structure.

MR. COMMISSIONER BRITNELL: Captain Carson, with the assistance or Mr. Frawley, cast a certain gloom over the assembly this afternoon, and perhaps that is what prompts my next question, arising out of a statement contained on page 7 of your brief.

I wonder what the company's reasons were for stating or suggesting that the United States will be compelled, by the very early 1960's, to liberalize the present import policy.

MR. LILLEY: I think that statement is based, primarily, on the trend as is indicated of wells drilled on an increasing scale, with lower discovery rates and the fact that last year, in 1957, was the first year where the withdrawals from US reserves exceeded the discovery rate.

Let me check that and see if my memory serves me right. They say it might not have been the first time, but it was the first time in some time past on a substantial scale.

As you read these trends it would indicate that the rate of discovery is slowing down and

becoming more expensive and, gradually, with an increasing economy, the tendency will be for them to need more petroleum than they could possibly produce, and that makes an opportunity for greater import.

MR. COMMISSIONER BRITNELL: I suspected that was at least a part of the answer. I was rather hoping you might have some other rays of light on the horizon, beyond that.

MR. LILLEY: You mean something very specific, Mr. Britnell?

MR. COMMISSIONER BRITNELL: Yes.

MR. LILLEY: I wish I could help you on that. I'm sorry.

MR. COMMISSIONER BRITNELL: On page 14, the brief states that the trend in recent years has been towards weakening of the traditional dominance of United States Gulf Coast prices over the world crude price structure.

What are the indications of that and what are, secondly, the reasons that you see for that situation?

MR. LILLEY: Well, as far as what the trend is in this respect, taking Middle Eastern prices as one group, we feel that price increases in the Western Hemisphere really have not followed in a direct mathematical relationship. There have been times, almost, in the past, in recent years,

where the Middle Eastern prices have tended to go down, while prices in the Western Hemisphere have been stable.

I cannot tell you all the factors. One factor, of course, is the fact that, as has been mentioned here, those fields are extremely prolific; there are great reserve potentials available there.

Another thing is that much of the consumption of energy in Western Europe is based on the use of raw energy. I am not talking of the highly-refined specialties like aviation gasoline and high octane motor gasoline. They tend, in Europe, to use it as a replacement for hydro electric or coal, both of which are becoming expensive and difficult to obtain; and, therefore, the value would be different in that market.

It is quite an economic study, to find all the answers for it.

MR. COMMISSIONER BRITNELL: Thank you, Mr. Lilley.

THE CHAIRMAN: Well, it is now our adjournment hour and I think we will adjourn until tomorrow morning, to meet in this room at 10 o'clock, and I think there are still a few questions, Mr. Lilley, that the Commission would like to ask you at that time, so would you be good enough to be prepared to go on at ten o'clock tomorrow morning.

I believe also, Mr. Parkinson, that will be followed by --

MR. PARKINSON: Followed by the submission by the Triad Oil Company, Mr. Chairman, and then by the B-A Oil Company.

THE CHAIRMAN: This hearing of the Commission is now adjourned, then, until ten o'clock tomorrow morning.

---Whereupon the hearing adjourned, at 4.30 p.m., until 10.00 a.m., Thursday, May 8, 1958.

Mr. Borden

ROYAL COMMISSION

ON

ENERGY

HEARINGS

HELD AT

CALGARY,

ALTA.

VOLUME No.: 37

DATE: MAY 8 1958

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VOLUME 37 Page 5189, Line 28.
Insert word "be" after "would"

Page 5191, Line 25.
Insert "which" after "produce"

Page 5197, Line 21.
Delete "1960" read "1961"

Page 5199, Line 17.
Delete "exploration" read "expansion"

Page 5201, Line 24.
Delete "against" read "a cost"

Page 5202, Line 21.
Delete "to the Commission".

Page 5205, Line 2.
Delete "and in the" and read "in any"

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C O R R I G E N D U M

VOLUME 37

Page 5248, Paragraph 1, Line 10.
The figure 477,000 should read 466,000

Page 5269, Paragraph 2, Line 12.
The figure 195 . should read 1958.

Page 5289, First line of numerical paragraph 2.
The word "complications" should read "implications".

Page 5298, 4th line from bottom.
After the words "include only" and prior to the words "main trunk line", the following has been omitted:
"...main trunk pipe line charges plus line loss allowance and import duty where applicable. The cost of gathering crude oil to the point of entry into the ...".

Page 5298 - This entire page is incorrectly placed in the transcript. It should be numbered page 5299 and page 5299 should be numbered 5298.

Page 5300, Paragraph 1, Line 4.
Following the words "oil pipe lines" and prior to the words "usually operate" the following has been omitted from the transcript: "as compared with gas transmission lines, since crude oil pipe lines...".

Page 5309 - It appears that paragraph 3 under the section Implications of Committing Canadian Crude Oil Reserves to the Montreal Market on page 23 of our brief has been omitted from the transcript. This paragraph, if read, would have been the last paragraph in this section, read by Mr. Campbell prior to Mr. Anderson's reading Appendix E.

~~**VOLUME 38** Page 5433, 4th line from bottom.~~
~~The figure 1.38 should read 3.19.~~

CORRIGENDUM

In This Volume, at page 5327, lines 16 and 18, the names "Mr. Brock" and "Mr. Linker" should read, respectively, "Mr. Brockett" and "Mr. Lenker".

At page 5329, at line 7, the word "positions" should read "conditions".

At page 5331, at lines 7, 8 and 9, the words "screens" and "screen" should read "streams" and "stream".

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ROYAL COMMISSION

ON

ENERGY

Hearings held at Calgary, commencing Tuesday, April 29, 1958, at 10.00 a.m.

PRESENT:

Mr. H. Borden, C.M.G., Q.C.	-- Chairman
Mr. J.L. Levesque	-- Member
Mr. G.E. Britnell	-- Member
Dr. R.D. Howland	-- Member
Mr. L.J. Ladner, Q.C.	-- Member
Dr. R.M. Hardy	-- Member

COMMISSION COUNSEL:

Mr. A.S. Pattillo, Q.C.

Mr. Miles H. Patterson.

Mr. J.F. Parkinson	-- Secretary to the Commission.
Major N. Lafrance	-- Assistant Secretary to the Commission.

APPEARANCES:

Representing Imperial Oil Limited:

Mr. J. R. White	- President, Director
Mr. J. A. Cogan	- Vice-President, Director
Mr. W. O. Twaits	- Executive Vice-President, Director
Mr. W. D. Mackenzie	- General Manager, Producing Department, Director
Mr. J. K. Jamieson	- Vice-President Director
Mr. J. W. Hamilton, Q.C.	- Director
Mr. R. M. Crockett	- Manager, Economics Department
Mr. F. G. Cottle	- Manager of Transportation and Supply
Mr. J. D. Harvie	- Manager of Producing Economics

APPEARANCES:

Representing Triad Oil Co. Ltd.:

Mr. E.H. Tanner	-	President
Mr. J.G. Spratt	-	Executive Vice-President
Mr. M.H. Finnell	-	Secretary-Treasurer
Mr. D.C. Ion	-	General Manager

EXHIBITS

No.	Description	Page
CC-8-1	Submission of Triad Oil Co. Ltd.	5208

APPEARANCES:

Representing The British American Oil Company Limited:

Mr. E.D. Loughney	-	Senior Vice President
Mr. D.L. Campbell	-	Senior Vice President
Mr. O.I. Torkelsen	-	Vice President
Mr. E.J. Gallagher	-	General Manager Production and Pipe Line Department
Mr. J.R. Yarnell	-	Treasurer
Mr. H.S. Sparrow	-	General Manager, Crude and Products Supply
Mr. D.S. Lyall	-	Manager, Economics Co-Ordination Department
Mr. J.F. O'Neil	-	Manager, Crude and Products Supply, Western Division
Mr. A.H. Kemp	-	Advisor, Pipe Line and Construction
Mr. J.A. Strand	-	Petroleum Engineering Supervisor
Mr. S.J. Anderson	-	Production Engineering Advisor

EXHIBITS

No.	Description	Page
CC-8-2	Submission of The British American Oil Company Limited	5234

Thursday,
May 8, 1958.

---On resuming at 10.00 a.m.

---Mr. Commissioner Levesque was not present.

---Mr. Commissioner Ladner was not present.

THE CHAIRMAN: Gentlemen, the Commission will now resume its hearing.

Mr. Lilley, there were some matters left outstanding yesterday on which you were going to get us some information. Have you got any of that yet?

MR. LILLEY: Just a moment, Mr. Chairman, and I will see.

No, my associates say they do not have the information in appropriate form to submit at the present time but, within a few days, it will be tabled with the Commission; all the data will be finished then.

THE CHAIRMAN: I think there are one or two questions that the Commission wished to ask you and your associates.

Dr. Howland?

MR. COMMISSIONER HOWLAND: Thank you Mr. Chairman.

Mr. Lilley, in your discussion with our counsel yesterday you mentioned at one point that

there were some pecularities about the pricing situation in the Sumatra area. Would you like to just enlighten us a little about that?

MR. LILLEY: Well, there is a differential price in the area. I am not sure whether it still exists or not, to be candid with you, but they have one price which they use in nearby areas and, in some cases, I believe they have another basis for shipment into areas that are farther away, a sort of geographical differential, because of their peculiar position, so far away from the general consuming markets.

Some of the nearby points, like India, where they impinge upon the production in the Persian Gulf, they tend to meet on an equalized basis.

It is a situation that has existed in the world oil market where a seller, in order to be able to move his oil beyond the immediate orbit, tends to compensate geographically.

MR. COMMISSIONER HOWLAND: You have a sort of two-price system?

MR. LILLEY: It really amounts to that. It is not rigid and I am not sure it is still in effect. The last time I heard, there was such a system. It existed, I believe (and I am not quite certain of this) just after the Second War period, in the Middle East.

I am not sure whether it is crude or products. It is one of the two.

MR. COMMISSIONER HOWLAND: To keep the two-price system, they would have to have some peculiar advantage in the Indian market, let us say, so that they could load their price a little?

MR. LILLEY: I think it is something along those lines. As the oil moves into markets in India, which is very nearby, and the nearest competition is somewhere on the Persian Gulf, they are favourably situated and can sell at a reasonable price.

If it goes westward, say, to a greater distance, say to the Pacific Coast, for example, there are disadvantages there, where they are opposed to other forms of competition; so there has been a tendency to want to equalize to some extent, and I think they have worked out a system which takes that into account.

As far as I know, it is not a rigid one. As far as I know, it has been in effect and it may not still be.

MR. COMMISSIONER HOWLAND: This is likely to break down - -

MR. LILLEY: It is a freight equalization situation, from an origin standpoint, but it does not vary with every rate or every day.

MR. COMMISSIONER HOWLAND: Again, on this

matter of prices, I was interested in the view shared with the Imperial Oil and, apparently, most of you in the integrated companies feel that the biggest factor for growth of the Canadian oil industry is going to be in the Toronto area.

Is that correct?

MR. LILLEY: I think our brief felt that, again, the Toronto area and the tri-State area which we mentioned in our brief are primarily those areas which are furthest removed from seaport competition and were the most likely prospects for growth of Canadian oil. The Toronto and Ontario area, largely, and the areas throughout Canada, moving westward, are the ones to which I have reference.

MR. COMMISSIONER HOWLAND: Well, is it not true that, looking at the figures of the forecast of expansion, that your estimate is that the biggest factor is the growth of the Ontario market?

MR. LILLEY: That is correct.

MR. COMMISSIONER HOWLAND: Well, I am trying to understand the reason for this faith, not critically, but to understand the facts which underlie your belief here.

Like every forecast or every opinion, it seems to me that it is, of necessity, based on certain assumptions. We can assume one of these is strictly commercial, which I understand from you that we must, that a certain price relationship will

exist with regard to crude oil prices in the Montreal and Toronto refining areas.

What I would like to have from you is some information on the break-even point, which decides whether refining will take place in the Montreal area or in the broad Toronto area.

Coul you enlighten me a little on this, because this is not a trick question - -

MR. LILLEY: No, Mr. Howland, it is a very good question. I am just a little bit concerned that we may not have all the figures right at hand. I will check, if I may, with our economic group.

MR. COMMISSIONER HOWLAND: Let me be clear. As far as I am concerned, I would be quite delighted, and I am sure my colleagues would, if you would submit this data. I am, personally, not capable of discussing this in detail. I am not an expert in the oil industry.

What is concerning me is that the Commission have a fairly heavy responsibility in going along with this forecast or not, and we have not got very much information which tells us that, at a certain point, the change in the price relationship would, in fact, tend to nullify, on commercial decisions, what you said to us. B.P., I believe -- I do not want to bring them in now, but one company has already, on a commercial basis, recently decided that you are wrong. They are basing the major

decisions on a different assumption, that is, that the price of oil in the Montreal area is probably going to be advantageous.

Now, frankly, I would much prefer, in some ways, to have from you a careful analysis as to the break-even point which has obtained over the period of growth which has led to the recent development in the Toronto area, and the break-even point which must be assumed if you are going to continue to grow in that area.

I think it is a fair question. Is it clear to you what I am after?

MR. LILLEY: Yes, your question is extremely clear and, without my saying it, of course, you know better than I that economic forecasts are a matter of opinion. We do have back-up data and I will check that. I do not think we have it before us now.

Yes, we will have it for you but we do not have it in a form now that we could give it to you. We will submit it to the Commission.

MR. COMMISSIONER HOWLAND: Thank you, Mr. Lilley.

As you are in such a nice mood this morning, and I, too, apparently, may I ask you some questions which could be interpreted as being loaded, which, quite frankly, are not?

MR. LILLEY: Certainly.

MR. COMMISSIONER HOWLAND: I would like to understand, much more, your reasoning. I have in mind the statement that Mr. White made to this Commission at the conclusion of the sittings, which I think appealed to pretty well everybody who listened to it. The gist seemed to be that in order to improve the condition of the Canadian producing industry, first, the government should take firm steps to try and acquaint the United States Government with our problem in full and that, secondly, the oil industry ought to get together and do something together.

Now, maybe I am misinterpreting this, although I do not believe so. I have not checked over the record carefully.

This is where I am being provocative, and I have no interest in the answer other than the reasoning that you have.

What machinery of government exists to facilitate these moves? In the first place, the government has to make a very careful analysis of the interests of Canada, including some, if you appreciate, some varied interests. In the second place, the oil industry has some difficulties in getting together -- I believe the name of my friend, Tom MacDonald, was mentioned.

Now, again I am loading the question, but forget it, as far as that goes: the only machinery

we seem to have at the moment is negative. Put this in the setting of the proposal which has been made by some -- not by this Commission -- that there ought to be some kind of advisory authority, and would it not be of some help to the industry, in a situation like this, to be able to get together and discuss this thing?

I do not know if you like the word "umbrella" that has been used around here, but what are your thoughts?

MR. LILLEY: On the first thought that you were addressing the question to, which is the matter of representation and the situation here in Canada as it relates to the United States, I think I would certainly agree with Mr. White that such a course of action should be pursued.

On the second question, I would prefer, if you don't mind, that Mr. Bentley would handle it. I think it is more in his sphere than mine, and I think he has a more intimate knowledge there.

MR. COMMISSIONER HOWLAND: Before you turn it over to Mr. Bentley, I think you agreed on the first question.

How are you going to take the time of a busy government -- and I believe if you say they are not busy, there would be a disagreement between us, because I think they are; they have a busy government down there -- who is going to take the

time to listen to you, Mr. Lilley, and our good friend Mr. White, and so we go down the list?

Now, you are not allowed to get together first.

MR. LILLEY: Well, I think that is a very good question. Of course, my concept of this (and it may be a little naive, because I am certainly no authority on government procedures) this is, essentially, of course, a question not just for the oil industry; you have your base minerals and other similar mineral resources in Canada, which, of course, is associated with some of these problems, these problems of the oil industry or potential problems of the oil industry.

I do not know what forces of government would undertake to do this or who would have the time. The problem, to me, is merely there as a commercial industry problem; but it may be that each group would be represented through a specialist in the particular government agency.

I have not developed this line of thinking very far.

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MR. COMMISSIONER HOWLAND: Well, this is where you can be helpful, because you are a busy man and the Government has appointed a Commission like this to sort of have a little more time to look at this. I think your experience in a particular situation like this would be very valuable to us, to have you take a few more minutes and think about it, because it is a very real problem, as to letting an industry get into a situation and then appointing a Royal Commission which is pretty hard, certainly, on the Chairman here; I know some of us feel a little worn out too.

MR. LILLEY: We appreciate that. Of course, in the final analysis I think representations of this type go through the usual official channels of government, the facts are all put together and assessment made of the facts by your usual channels if you had a permanent agency of some sort. What I gather you are proposing or suggesting is that clarification could be secured and the facts could be boiled down to manageable proportions within the inner workings of the energy industries and assimilate those and present them to the usual

MR. COMMISSIONER HOWLAND: That is right. I don't think there is any presumption in anybody's mind that any Board would stop anybody getting to a minister or parliament; I don't think anyone in

Canada would seriously think of that. So putting it in the best light you can, what is the machinery today to enable you to do this?

MR. LILLEY: I am not really familiar with the current machinery here in Canada to know. Certainly there has to be someone to talk to in these cases, and I am not sure that the official here make that possible. I don't have the basic knowledge to make a sensible answer. I would like to have Mr. Bentley answer some of your questions, and if I can be more helpful, I will try to.

MR. BENTLEY: Dr. Howland, Mr. White's suggestion was that the Government should make representations to the United States Government on the broad and general picture of energy resources, crude oil. He did suggest, I think, that your Commission itself might consider what it could do by way of assisting the Government in that regard. Now, I think the evidence which has been presented to you here and will be presented to you across the country is going to put your Commission in a position to make representations to the Government on these matters. I understand from the press that it is expected that your recommendations on the natural gas situation, for example, will be dealt with by way of an interim report, and what I am trying to say is, and as is said in our brief, we believe that Royal Commissions dealing with the

problems of this sort are of great benefit and perhaps could deal with the matter through the proper department, it may be through the Department of Transport, through the Department of Trade and Commerce, and in that way it goes to the Cabinet and the Cabinet then takes the action.

MR. COMMISSIONER HOWLAND: You have heard Mr. A. P. Herbert's comments on Royal Commissions. He said that one line comes in one end and out the other and it all takes a long, long time. This is the usual complaint of Commissions.

MR. BENTLEY: I agree it takes a long, long time, but governments of the country have already been a long time on the natural gas industry. I am not trying to be funny, sir, I am trying to clarify the situation.

MR. COMMISSIONER HOWLAND: What machinery of government exists that enables you to get together?

MR. BENTLEY: As far as the oil industry getting together is concerned, there are provisions in the Criminal Code and the Combines Investigation Act which makes industry getting together to discuss prices illegal in this case. But I would say that if the Deparmtment of Trade and Commerce wished to invite industry to meet and the Department of Justice was in agreement, there would no reason why they couldn't discuss problems

with the Department which would be more particularly concerned with the matter.

MR. COMMISSIONER HOWLAND: Thank you, Mr. Bentley.

MR. COMMISSIONER HARDY: Mr. Chairman, there is just one point I would like to raise. In the transcript of yesterday on page 5167 Dr. Britnell asked a question about prorationing, and Mr. Lilley gave a reply in which he stated that the controls in the States, using one example, the Texas Railroad Commission, were that of a Conservation Board and not to waste or take out production which cannot be disposed of and not to overproduce fields. Now, I don't think we would have very much quarrel with the statement taken literally, but I think we might on the basis of emphasis on the various points, and I would like to give you a quotation of General Thompson who has been one of the members of the Texas Railroad Commission since 1930. In appearing before a Congressional Committee in 1953, he is reported as stating -- I don't know whether it is an unimpeachable source, but this is a quotation: "Our Texas statutes on waste prevention include market demand. Further, this definition says: 'Production in excess of market demand or transportation facilities is waste and is forbidden'". Now, doesn't that imply a degree of control in

the United States that makes some of these potential market developments that you have been talking about in the middle west and in the Puget Sound area perhapsa little difficult to achieve?

MR. LILLEY: Well, I am not quite sure that I can relate those two directly. Undoubtedly that is his position, and I suppose fairly represents the Texas Railroad position, but I thought the tenor of our evidence was that we felt the basis of the United States reserves was on the decline from the standpoint of its relationship to consumption and consumption trend, and if that is the case -- this is probably an educated guess on our part as it may be on anybody's part -- the chances are that the oil from the State of Texas would be insufficient to supply the areas, the whole areas of the United States that require oil and that the oil would then tend to move to more nearby points to supply them, and it would be for the more remote areas to find oil elsewhere. I don't think it is tied indirectly with the Texas proration system, because I think it is our opinion that in the long pull in the United States there is going to be an increasing gap between consumption and production will have to be filled somewhere, and geography will tend to be the determining point in supply.

MR. COMMISSIONER HARDY: What I am suggesting

is this, that there appears to be a degree of control in the United States that we are not exerting in this country. For example, the Montreal market seems to be the only major market left on this continent where there is not a measure of control of some sort. In this case I would be quite prepared to accept your analysis of the situation, but is it not also possible that the sources of foreign supply might be controlled by United States policy to fill the market, that that will develop even on a long-term scale, and the assumptions that it is simply going to be there for us to pick up for Canada as the demand arises are perhaps a little too optimistic.

MR. LILLEY: By that I gather that the United States in some manner, having a shortage in regard to their production, would give preference to other foreign oils to fill this gap?

MR. COMMISSIONER HARDY: Yes, that is what I am saying.

MR. LILLEY: Anything is possible in this world. I think the position of the American Government on this point has always been that they will not preferentially favour one producing country or one country over another in these matters. There could be a very strong case made, probably, from a geographical standpoint for some preferences for the areas near the United States, but to the

best of my knowledge they have never taken the attitude that they could afford in their diplomatic relations to favour one over the other. I don't know what the future holds to answer your question, but it hasn't been an historic policy.

THE CHAIRMAN: The inference from your answer, Mr. Lilley, is that the American Government has a pretty good stranglehold on our companies, they are going to tell them where they are going to bring their oil from.

MR. LILLEY: I didn't mean to imply that.

THE CHAIRMAN: It wouldn't be in my judgment so much the American Government as the oil companies and it wouldn't be just a matter of geography.

MR. LILLEY: I think it would be a matter of geography and the matter of international relations. But insofar as the voluntary quotas are concerned, I think that is more or less the point to which we were referring indirectly. Once the Government has asked us to stay within certain limits in the United States as oil companies, the allocation, country by country, is left very much to the country.

THE CHAIRMAN: And obviously the individual companies would determine that allocation on the basis of the cheapest oil they could get.

MR. LILLEY: That would certainly be a

major factor, particularly when you are operating with concession oil in the relatively politically unstable countries.

THE CHAIRMAN: Is there anything wrong with that thought?

MR. LILLEY: No. I might say it is certainly one of the points that would weigh in anybody's decision. It is a matter of economics, and that is one of the reasons why we are in business. When we operate in any country we try and do the best we can for each area in which we operate; but certainly in the final analysis that economy has a great bearing on the position.

THE CHAIRMAN: It seems to me that when you speak about this additional need for oil in the United States during the sixties -- I think your brief puts it that way --

MR. LILLEY: That is right.

THE CHAIRMAN: -- that we are not on very safe ground in assuming that a large portion of the need will be filled by exportation from Canada.

MR. LILLEY: Well, yes. The observation in our brief, for instance, is related to the feature where this market will be there and will be anticipated at some point, certainly not too much will be Canadian oil.

I think we felt that the tri-state market we mentioned would be more likely to take some action based on economics and geography. I do not think we have ever stated or attempted to state, and if we did I would like to correct it, that all of this automatically fell into the Canadian oil producers' hands as outlets. We have suggested that the economics and geographics will be a good opportunity for Canadian oil.

THE CHAIRMAN: Unless Canadian oil does reach these markets, assuming that the Montreal market is supplied by foreign crude then Canadian production is going to continue to be maintained in the neighbourhood of approximately 30 per cent

of production; will the market grow in accordance with the growth and demand in our own country outside of the Montreal market?

You yesterday stated in your testimony with respect to the 8,000 barrels going to Puget Sound, I think, I have not looked up the exact word but I made a note of it when you said it -- you said, "Of course, it could change from time to time." I want to get an admission from you as to the uncertainty of this export business to our great neighbour to the south.

MR. LILLEY: I could not say otherwise than anything of that nature. The demand is uncertain, obviously. I am only trying to present it in this brief, set out all the facts as they may be a possibility.

The oil business in itself is an uncertain business and the import and export policies of countries is very uncertain as we have had demonstrated amply in recent times.

THE CHAIRMAN: If the Montreal market is made a possibility for Canadian producers and to them only or for a large part of it, a certain amount of that uncertainty -- a great deal of it -- is removed, is it not?

MR. LILLEY: Right.

THE CHAIRMAN: Tell me, Mr. Lilley, have you any contractual -- has your company any contractual

obligations which would prevent McColl-Frontenac from taking the Canadian crude at Montreal?

MR. LILLEY: We do have contractual obligations. I do not know the extent.

THE CHAIRMAN: Yesterday I think you gave me it in the testimony. You had contracts for two years with this unknown supplier from Venezuela.

MR. LILLEY: Two years. I believe there is an advance cancellation clause to make it effective within the two-year period. Actually the two-year period started running earlier this year, January 1st, and so by the time the pipe line would be built -- I presume that is your question -- it would be feasible.

MR. COMMISSIONER BRITNELL: Now, I was going to say do you even have some outside contracts for the Toronto market.

MR. LILLEY: Yes, we have a small one there. It may have gone. That terminates now about 1960.

THE CHAIRMAN: You are a shareholder, or a participant, put it that way, in the Portland-Montreal pipe line.

MR. LILLEY: Yes, sir.

THE CHAIRMAN: Would you be good enough to tell the Commission the book value of your company's investment in that line?

MR. LILLEY: May I ask Mr. Farquharson to take that? He is a director.

THE CHAIRMAN: Certainly.

MR. FARQUHARSON: The best information I can give you, Mr. Borden, is that McColl-Frontenac costs of acquiring 18 per cent ownership share was $543,000.

THE CHAIRMAN: That does not give an answer to my question. That may have been your original cost. What is the book value as of December 31st, 1957?

MR. FARQUHARSON: The total book value -- the figure I have here is $37,400,000. That is the original book value, the total value of the pipe lines as of December 31st, 1957. The depreciated value I can give you.

THE CHAIRMAN: We got that information, as I recall it, from the Imperial Oil testimony. Now, you are speaking of the company itself, the consolidated picture, are you not?

MR. FARQUHARSON: That is right.

THE CHAIRMAN: That is not what I want. The question I asked is -- it is $25 million roughly depreciated?

MR. FARQUHARSON: That is right.

THE CHAIRMAN: What is McColl-Frontenac's present book value. You say $543,000 was your original cost.

MR. LILLEY: If your question, Mr. Borden, is what is the value that we have in our books -- is that your question?

THE CHAIRMAN: Yes.

MR. LILLEY: I am doing this under some forced pressure here. At the time $542,000 is our original investment, and would be the price at which it was carried on our consolidated balance sheet. I am not sure whether any additional moneys have been added to that over a period of time since the original investment or whether it has been self-financing as it expanded. I have not asked about that. Mr. Farquharson says it has been self-financing.

THE CHAIRMAN: Yes. The only dividend that cleared was this $400,000-odd so you have finance exploration out of retained earnings. Is that correct?

MR. LILLEY: Yes.

THE CHAIRMAN: So that your interest is what per cent of the total?

MR. LILLEY: Eighteen per cent.

THE CHAIRMAN: That is represented by that sum $543,000. That has never been in any manner, or at least no part of that has at any time been written down in your accounts?

MR. LILLEY: It is not so indicated. I would be glad to make a further check to get those

figures.

THE CHAIRMAN: I would like to know. These are questions I omitted to ask Imperial Oil and Shell Oil. I wish to get this same information from them.

MR. LILLEY: May I supply you a statement on that?

THE CHAIRMAN: Certainly. I would like to know whether there is any reserve in your books set up against that investment and if so in what amount.

MR. LILLEY: Right.

THE CHAIRMAN: While we are on this subject, is there anyone present today representing Imperial Oil?

MR. D. E. LEWIS: I think, sir, I do represent Imperial Oil.

THE CHAIRMAN: I wonder if you would be good enough to give the Commission an answer to that same question.

MR. LEWIS: Right, sir.

THE CHAIRMAN: By memorandum. If a memorandum can come into us it would be quite satisfactory.

MR. LEWIS: Right.

THE CHAIRMAN: Is there anyone representing Shell?

MR. W. J. ROMAN:: Yes, I think I can

do the same, sir, for Shell Oil.

THE CHAIRMAN: Mr. Lilley, your financial year ends on December 31st?

MR. LILLEY: Yes, sir.

THE CHAIRMAN: What was the return on capital employed by your company for 1957?

MR. LILLEY: Ten per cent was the consolidated ---

THE CHAIRMAN: Ten per cent?

MR. LILLEY: Yes.

THE CHAIRMAN: Can you tell me -- you have a refinery with a capacity of roughly 59,000 barrels daily in Montreal?

MR. LILLEY: Yes.

THE CHAIRMAN: Can you tell me what the return of capital is in the manufacturing and marketing operation of that refinery?

MR. LILLEY: I would check with Mr. Farquharson. I think that is a little difficult for us to say in the way we operate our operations. We do not have any such figures, Mr. Borden. I will be glad to see if I can come up with them. That is not the way we normally allocate our operations. Our refinery is usually against operation in our bookkeeping system and then we have separate situations for various marketing areas.

THE CHAIRMAN: I am only thinking of

the Montreal marketing area.

MR. LILLEY: Yes. Well, our books are carried for divisions which would take in a lot further than the Montreal market.

THE CHAIRMAN: I think that would be satisfactory because that would be all foreign crude.

MR. LILLEY: What you really want is the area, the source of the foreign crude processed through that Montreal refinery.

THE CHAIRMAN: Yes.

MR. LILLEY: May we make a study on that?

THE CHAIRMAN: Would you do the same thing with respect to your Port Credit refinery for us?

MR. LILLEY: Yes.

THE CHAIRMAN: And the same thing with respect to your Edmonton refinery?

MR. LILLEY: I will be glad to do so. I would like the privilege of submitting that directly to the Commission, if I may, to the Chairman.

THE CHAIRMAN: I think, yes, you can do that. That is quite all right.

Thank you very much, Mr. Lilley, for the assistance you have given us. We appreciate very much your brief and your spending the time and appearing before us and giving us the help

which you have, and I do not think we have any more questions.

MR. FRAWLEY: Mr. Chairman.

THE CHAIRMAN: I am sorry.

MR. FRAWLEY: I have just two supplementary questions, if I may.

Yesterday, Mr. Lilley, the Chairman was discussing with Mr. White the positive efforts to expand the market for Canadian crudes and there was just one aspect of his answer that I would like to explore with you. He said that there would be displacement of the Montrel product transfers amounting to 56,000 barrels a day in 1959. Now, as you would be one of the displacers, can you tell me whether you have made any calculation as to how much -- assuming that Mr. White's figures are approximately correct -- how much of that would be McColl's participation? If you have not the answer for me I would be quite content if you would file a memorandum with the Secretary.

MR. LILLEY: Mr. Frawley, I would prefer to file a memorandum. I am not entirely familiar with Mr. White's figures. As I recollect -- I heard part of his testimony yesterday -- he was speaking about the replacement of importation in that area.

MR. FRAWLEY: Yes, that is true. "Displacement, Montreal products transfers --"

I am reading from page 5024 of yesterday's transcript:

"Displacement, Montreal products transfers,
"56,000 barrels a day."

MR. LILLEY: 1959 was the year.

MR. FRAWLEY: 1959 is the year.

MR. LILLEY: We will be glad to submit that to the Secretary.

MR. FRAWLEY: There is only one other thing. Would you be good enough to give me either now or in a similar memorandum to the Secretary the names and grades and gravity and sulphur content of the foreign crudes which you imported into Montreal in 1955, 1956, 1957 and currently, dividing it into Venezuelan or Middle East or Far Eastern crudes?

MR. LILLEY: I will be very glad to do that.

MR. FRAWLEY: Thank you very much.

MR. LILLEY: Mr. Borden, if there are no further questions may I just make a brief statement here?

THE CHAIRMAN: Certainly.

MR. LILLEY: Before leaving, Mr. Chairman, we would like to say how much we have appreciated the courtesy of the Commission and the privilege of appearing before you, sir. We would like to say further that it is obvious that the solutions of such a complex problem are not

solutions which are black or white. There are many intangibles involved and in the presentation which deals with the future, and this is certainly true of the brief we have presented to you here, such items as the future growth rate in the North American Continent, development and trend of the economics of the countries in this area and the discovery rate of crude oil in North America are all very important.

Any material changes in the economics as we have presented them would, of course, tend to change the conclusions we have presented. Our presentation is based in reference to the situation as we see it today.

Thank you.

THE CHAIRMAN: Thank you very much, Mr. Lilley.

I believe the Triad Oil Company was to present its submission next. We will have three or four minutes break in order to enable the Triad people to be seated.

---A short recess.

THE CHAIRMAN: Gentlemen, the Commission will now resume its hearing.

Before I call on counsel, I think the time has come in the hearings that this Commission has been holding for the Chairman to remind the industry, the oil and gas industry, that while there is a tremendous amount of testimony which has gone on the record, the Commission is relying upon the co-operation of the industry itself to come forward and to give the Commission the kind of information which the industry, in its own good judgment, feels the Commission should have, if it is going to be able to make recommendations which can be soundly based.

If, in reading the testimony, as one can do, one finds where sometimes a question has been answered by a "yes" or a "no" but leaves an inference which might be misleading, I think that industry owes it to the Commission, and I would ask them for their assistance in that regard, to correct that impression left on the record, so that, in considering all the testimony, the Commission can feel reasonably certain that it has obtained the information in proper form, which it is essential for the Commission to have in order to make recommendations, and not information that has been given

to it, quite unintentionally, leaving gaps that could be misleading.

It is the duty of counsel for the Commission to put information on the record to the best of their ability. They are not experts in the oil and gas industry and we cannot expect them to be superhuman and to know more about the industry than those who appear before us; so I think, as I said, the time has come, with the great amount of testimony on the record, that you men in the industry can now appraise the situation from that testimony and, when you see that you can help the Commission, the Commission will welcome that assistance, as well as the great assistance which you have been rendering to it by appearing as you have done and, to the best of your ability, given us the information which you feel we should have and which we sought.

Thank you very much.

Now, Mr. Patterson?

Submission of

TRIAD OIL CO. LTD.

APPEARANCES:

Mr. E.H. Tanner	-	President
Mr. J.G. Spratt	-	Executive Vice-President
Mr. M.H. Finnell	-	Secretary-Treasurer
Mr. D.C. Ion	-	General Manager

MR. PATTERSON: Thank you, Mr. Chairman. I would ask that the submission of Triad Oil Company be marked as Exhibit CC-8-1.

---EXHIBIT CC-8-1: Submission of Triad Oil Co. Ltd.

Before reading the submission, I would ask Mr. Tanner to introduce himself and the gentlemen who are with him to the Commission.

MR. TANNER: Thank you.

THE CHAIRMAN: Mr. Tanner?

MR. TANNER: Mr. Chairman and Commissioners, I am E.H. Tanner, President of Triad Oil Co. Ltd. On my right is Mr. Grant Spratt, Executive Vice-President of the company. On the extreme left is Mr. D.C. Ion, General Manager and, on my immediate left, Mr. M.H. Finnell, Secretary-Treasurer.

Before presenting our brief, I would like to mention that the original letter from the Commission to me requested certain comments from

both Triad and British Petroleum Company. That portion of the letter referring to British Petroleum Company has, of course, beein forwarded to them, and I understand they have been in communication with the Secretary of the Commission.

The brief we are presenting this morning represents the comments of Triad only and, with the permission of the Commission, I would ask Mr. Spratt, the Executive Vice-President of the company, to read our statement.

THE CHAIRMAN: Thank you. Mr. Spratt?

MR. SPRATT: Mr. Chairman, members of the Commission, counsel: Introduction: As requested by the Royal Commission On Energy, Triad Oil Co. Ltd. presents herein its comments with respect to Clauses (a), (b) and (c) of the Commission's terms of reference as they relate to the petroleum industry.

We should like first to present a brief outline of the background and activities of Triad, together with certain observations concerning the Canadian oil and gas industry, with emphasis on the position of the producer.

The Company: Triad Oil Co. Ltd. was incorporated under the laws of the Province of Alberta on October 17, 1951, and is actively engaged in exploration and production activities in Western Canada. The Company is not engaged in refining and

marketing.

In 1953 agreement was reached with The British Petroleum Company Limited of London, England, whereby the BP Group was given the right to acquire at least a 50% interest in Triad. Pursuant to this agreement the BP Group will have acquired approximately a 50% interest by the end of 1958.

Apart from the interest purchased by the BP Group, Triad has confined the offering of its securities to Canada. The Company is not registered under the Securities and Exchange Commission of the United States.

Since 1954 Triad's operations have been considerably expanded in the exploration field. In this, Triad's management has been aided by advice and technical staff from the BP Group.

The Canadian Petroleum Industry: From the discovery of Leduc in 1947 up to and including 1957 approximately $3,000,000,000 has been spent on exploration and development in Western Canada.

Capital has been supplied from various sources including oil companies and other investors in the United States, Canada, the United Kingdom and other European countries.

We suggest that the substantial sums of capital employed were invested in anticipation of the industry's being permitted to market its production in areas within economic reach, subject

of course to the national interest.

The Canadian oil and gas industry produces new wealth; attracts capital for investment; creates employment; assists Canada's trade balance; benefits other industries through purchases of supplies and services; attracts new industries; and provides income to municipal, provincial and federal authorities through payment of royalties, rentals, bonuses and taxes.

Most of Canada's oil and gas reserves are located in the Western Plains and Foothills regions lying east of the Rocky Mountains. Present and potential markets, both in Canada and certain parts of the United States, must be reached mainly by long distance pipeline systems. As development of reserves continues to extend into more remote areas costs will increase. The distance from market results in comparatively low wellhead prices for the producer.

In view of the location of Canada's reserves with respect to major markets it is essential to the maintenance and growth of the producing industry that sales to all available markets be permitted, providing domestic needs are assured.

It is not Triad's intention to submit additional statistical data regarding reserves and markets. Such information has been and will be

supplied by government bodies, the Canadian Petroleum Association, and various oil, gas and transmission companies. According to this information, proven oil reserves of some 3 billion barrels and gas reserves of some 20 trillion cubic feet have been found. Future oil reserves in the order of 50 billion barrels, and future gas reserves in the order of 300 trillion cubic feet have been regarded as probable.

It is generally accepted that Canada has an exportable surplus of oil, and we believe that the evidence before the Commission indicates an exportable surplus of gas.

The Alberta Oil and Gas Conservation Board has estimated that 21 trillion cubic feet of gas has already been proven in the Province of Alberta. These reserves have been found largely incidental to the search for oil. The Board estimates that natural gas requirements for Alberta to December 31, 1986 are 7.6 trillion cubic feet, and has approved export permits to other parts of Canada and the United States totalling approximately 6 trillion cubic feet. Applications now before the Board request permission to export an additional 5.5 trillion cubic feet. This combined total of approximately 19 trillion cubic feet indicates a favorable balance in the Province of Alberta alone, even though future requirements are related to present reserves.

We appreciate that certain estimates of additional potential demand in Canada have been extrapolated to figures in excess of current proven reserves. However, we contend that to relate demand to supply the comparison must be brought into balance by relating current demand to proven reserves and potential demand to potential reserves.

Canada's reserves of proven gas have been increasing at the rate of about 2 trillion cubic feet a year. Past Canadian experience has led the Alberta Conservation Board to suggest that "the Province of Alberta can safely anticipate a growth rate of 6 billion cubic feet per wildcat well for the next several years". This experience has resulted largely without a direct incentive to explore for and develop gas reserves.

The creation of positive incentive, by providing for the near term sale of gas to volume markets, will encourage producers to exert their efforts in aggressive exploration, which should result in the conversion of a substantial part of this vast potential to proven resources. Such action would assure the Canadian consumer of additional proven reserves to meet future requirements.

It is indicated that new markets for Canadian gas are now available in the United States on a considerably more attractive basis than anything heretofore open to producers. If such markets are

denied and present outlets only are to be available, competition for the purchase of gas is largely eliminated. If the sale of proven reserves is materially deferred the asset would have little or no present worth; incentives to find additional supplies will disappear, and development will be curtailed.

Comments On Terms Of Reference, Clauses (a), (b) and (c).

Clause (a) . . "the policies which will best serve the national interest in relation to the export of energy and sources of energy from Canada;"

On the basis of the comments submitted under the heading "The Canadian Petroleum Industry", Triad believes that a policy of permitting the export of surplus oil and gas reserves is in the national interest.

We believe that export policies should be reviewed periodically and revised in the light of conditions as they exist from time to time, to assure continued protection of Canadian requirements.

Clause (b) . . "the problems involved in, and the policies which ought to be applied to, the regulation of the transmission of oil and natural gas between provinces or from Canada to another country, including, but without limiting the generality of the foregoing, the regulation of prices or rates to be charged or paid, the financial structure and

control of pipeline corporations in relation to the setting of proper prices or charges, and all such other matters as it is necessary to enquire into and report upon, in order to ensure the efficient and economical operation of pipelines in the national interest;"

As previously mentioned, Triad is an exploration and production company operating in Western Canada, and therefore does not feel qualified to express opinions of more than a general nature with reference to the subjects included in Clauses (b) and (c).

With reference to Clause (b), we believe that national pipeline corporations, including inter-provincial oil and gas transmission systems, render a valuable service to both the country and the industry. In the early stages these corporations are frequently faced with varying problems in the financing, construction and operation of the projects. Reserves and market or deficiency guarantees are generally required. We therefore believe that they should be given an opportunity to become firmly established with a minimum of regulation to ensure efficient use of national resources for the common good. If safeguards other than those already provided are found necessary in the national interest from time to time, it is suggested that they be accomplished through existing Federal and

Provincial bodies. There should be a minimum of duplication and maximum co-operation between Federal and Provincial authorities.

Clause (c) . . "the extent of authority that might best be conferred on a National Energy Board to administer, subject to the control and authority of Parliament, such aspects of energy policy coming within the jurisdiction of Parliament as it may be desirable to entrust to such a Board, together with the character of administration and procedure that might best be established for such a Board;"

In our opinion it is doubtful if the formation of a National Energy Board is necessary to protect Canada's energy resources in the national interest. We believe that adequate protection can be achieved through existing Federal and Provincial bodies without adding further, and to some extent duplicating, authorities.

Respectfully submitted, Triad Oil Co. Ltd.

THE CHAIRMAN: Thank you very much, Mr. Spratt. Mr. Patterson?

MR. PATTERSON: Thank you, Mr. Chairman.

Mr. Tanner, am I correct in assuming that Triad's operations are limited to the Province of Alberta, or does it hold reserves or leases in other parts of Canada?

MR. TANNER: It holds reserves and leases in other parts of Canada.

MR. PATTERSON: And would you give us the extent of reserves and leases held by the company, total figure?

MR. TANNER: The total figure, yes. The total gross acreage held by the company is 5,604,212 acres.

MR. PATTERSON: And could you give us the company's total allowable production of oil?

MR. SPRATT: Incidentally, I think it would be helpful if we gave Triad's net acreage position. That was our gross figure. Our net figure is 3,399,462 acres.

Your next question, Mr. Patterson, was Triad's present allowable.

MR. PATTERSON: Present allowable production.

MR. SPRATT: Our allowable for this month, gross allowable, is 2,593 barrels; our net would be -- I can't give you that exactly, but it would be, less royalty, between 2,200 and -- about 2,250 barrels per day.

MR. PATTERSON: And of that allowable what proportion is the company now actually selling, producing?

MR. SPRATT: Well, we are selling and producing approximately our allowable. I can give you the figures by average daily, by months, if you like, for the last two or three months.

Would that help you?

MR. PATTERSON: Yes.

MR. SPRATT: January, 1958, 2,467 barrels; February, 2,598; March, 2,025; April, estimated between 2,000 and 2,200; and May, estimated between 2,200 and 2,256.

MR. PATTERSON: And for that period, or any aggregate, what is your MPR for those?

MR. SPRATT: The gross MPR of our wells would be approximately 6,200 barrels, giving us a net of something in the order of 3,400 to 5,500 barrels.

MR. PATTERSON: Can you tell me of any efforts that Triad has made in regard to selling the oil represented by the difference between the allowable and the MPR?

MR. SPRATT: No, sir, we have made no specific effort to do that.

MR. PATTERSON: Would you give us the names and residences of the directors of the company and also the officers?

MR. TANNER: Yes. Referring first to the directors, we have ten directors: five Canadians resident in Canada and five British, three of whom are resident in London and two resident in Canada.

With respect to the officers, the officers of the company are four, all resident in Calgary,

one British and three Canadians.

MR. PATTERSON: And the names of the ten directors and the names of the officers??

MR. TANNER: The names of the directors are: Hon. M. R. Bridgeman, C.B.E., resident in London; P. T. Cox, M.B.E., resident in London; D. C. Ion, resident in Calgary; J. M. Pattinson, resident in London; C. R. Tanner, resident in Calgary; H. E. Cochran, resident in Toronto; A. F. Down, resident in Toronto; R. O. Johnson, resident in Montreal; J. G. Spratt, resident in Calgary; E. H. Tanner, resident in Calgary.

The officers -- I am sorry, I made a mistake. There are five officers: E. H. Tanner, J. G. Spratt, C. R. Tanner, D. C. Ion and M. H. Finnell, all resident in Calgary.

MR. PATTERSON: I believe your association has been in part for some time with British Petroleum; is that correct?

MR. ION: Yes.

MR. PATTERSON: And in that association with them have you had experience in countries such as Venezuela or Middle Eastern countries?

MR. ION: I have had experience as a geologist and as an oil fuel manager in the Middle East. I have had no interest in Venezuela, nor has the British Petroleum Company.

MR. PATTERSON: Sir, a figure which has

been given to us as to the finding cost in the Middle East has been half a cent a barrel. I wonder if, from your experience in that area, you can assist us in testing that figure.

MR. ION: I regret that in my experience in the Middle East I have no way to test that figure except to make the general remark that to me it would seem a very low one, and also to make the point that in assessing the finding cost of oil in undeveloped countries it is very difficult to get a figure because of so many intangibles that are tied up with the general cost of operations and may or may not be applicable in normal accounting procedures to the lifting cost.

MR. PATTERSON: Can you tell me, is Triad in 1960 undertaking an active exploration programme?

MR. TANNER: May I ask Mr. Spratt to answer that question?

MR. PATTERSON: Yes.

MR. SPRATT: Yes, we are, Mr. Patterson.

MR. PATTERSON: Now, it may be that you will feel that perhaps an answer to this question might properly be made by British Petroleum, but if you can give us assistance at this time we would appreciate it.

As you probably know, as you have been present and heard, we have been dealing with the

problem of the Montreal market and the decisions of refiners to expand in the Toronto area. Can you assist us at all with respect to the reasoning of the British Petroleum group in deciding, as I understand it, to locate and expand operations in Montreal?

MR. TANNER: I think that that, Mr. Patterson, is vrather difficult for us to reply to, to answer with any degree of accuracy. British Petroleum do not discuss any details of their programme with us. There is no secret in erecting a refinery down there, but they did not go into details with us.

THE CHAIRMAN: Mr. Tanner, I assume from your answer to that last question that there is no contract between Triad and B.P. in regard to the product of that refinery?

MR. TANNER: That is right.

THE CHAIRMAN: And B.P. would contemplate getting their crude from production in the Middle East?

MR. TANNER: I would be inclined to think that it would be obtaining that crude from sources similar to what other refiners in that area are using. I am sorry, I can't say that they are contemplating using Middle East oil entirely.

THE CHAIRMAN: Have you ever heard any

suggestion of any arrangement with any company that is operating in Venezuela?

MR. TANNER: No, I haven't.

THE CHAIRMAN: And you really are unable to say that they will not be bringing in Middle East to Montreal and that that is the foundation of their investment in refining?

MR. TANNER: That is right. I am sorry, did I understand you correctly? Would you mind repeating that?

THE CHAIRMAN: Perhaps the reporter would read the question.

THE REPORTER: "And you really are
"unable to say that they will not be bring-
"ing in Middle East to Montreal and that
"that is the foundation of their investment
"in refining?

MR. TANNER: That is right.

THE CHAIRMAN: Have you made any calculation as to what your position would be from the point of view of marketing that oil in which, from your figures given by Mr. Spratt a few minutes ago, obviously you are about 50 per cent of your MPR?

MR. SPRATT: Between 40 per cent and 50 per cent.

THE CHAIRMAN: Have you made any calculation as to how that situation would change in

the event that Canadian crude went to the Montreal market?

MR. TANNER: No, we have not.

MR. SPRATT: No, we have not, Mr. Borden. It was assumed generally, assuming our production position was the same relative to the total production of the Provinces of Alberta and Saskatchewan at the time the Montreal market might be available, that our ratio would increase roughly proportionately, but we have made no active calculation as to what it would do to our production.

THE CHAIRMAN: If you were not 50 per cent owned by B.P., would you be in favour of going to the Montreal market?

MR. SPRATT: Well, we ---

THE CHAIRMAN: Well, perhaps it is an unfair question.

MR. SPRATT: No, I will answer it. Whether or not we were 50 per cent owned by B.P., we would like to sell our oil to the best advantage we can, no matter where it goes, and the Montreal market is one which has been looked into by many people for a number of years, and if it were attractive from Triad's point of view to sell into the Montreal market, I think we would do it.

On the basis of the evidence we have heard so far, it does appear to us that the

Montreal market would require some type of umbrella. Its mechanics appear to be doubtful, at least, and apart from the economics it would appear to need deficiency guarantees and government protection of some kind. We would therefore feel we would like to see the possibility of closer and what appear to us to be more economic markets explored before we would, for example, want to contract our oil to a long-term market where the economics might be a little doubtful.

THE CHAIRMAN. But obviously it would not be in B.P's own commercial interest, if they were building a refinery in Montreal, to bring in Middle East or foreign crude. Would it not be in their own commercial interest to have production come from your company to Montreal?

MR. SPRATT: I would think, Mr. Borden, that that is a question I would like B.P. to answer directly.

MR. TANNER: May I say a word, Mr.Borden?

THE CHAIRMAN: Certainly.

MR. TANNER: I would like to say that British Petroleum Company, when we were asked to put in our brief, told us to put our own views on the Montreal or any other market and give our own conclusions and expressions of opinion.

THE CHAIRMAN: Thank you, Mr. Tanner.

MR. COMMISSIONER BRITNELL: One last

question following on the line the Chairman has been pursuing.

On page 3 of your brief, the third paragraph, you say:

> "We suggest that the substantial
> "sums of capital employed were invested
> "in anticipation of the industry's being
> "permitted to market its production in any
> "areas within economic reach, subject of
> "course to the national interest."

Are you referring there or thinking of oil as well as gas?

MR. TANNER: Yes.

MR. COMMISSIONER BRITNELL: Well, I wondered whether you could expand that a little further, because I do not think we have come up against any suggestions anywhere that there might be any consideration restraining the marketing of oil within areas of economic reach in the national interest?

MR. SPRATT: I am not quire sure I follow your question clearly, Mr. Britnell, but our feeling is that we would think that oil or gas reserves, which have to be found by exploration or purchase, would be given relative freedom in seeking economic markets as long as it was in the national interest, and I think, to date, that there has not been restriction so far as the seeking of the oil markets is concerned by any government regulation. The matter of gas, as you know, is one which has been receiving a lot of study during the last three or four years.

MR. COMMISSIONER BRITNELL: I can quite see the point with respect to gas, but I still don't see any suggestion anywhere of restricting oil markets.

MR. SPRATT: No, there are none.

MR. COMMISSIONER BRITNELL: Quite the reverse.

MR. SPRATT: That is true, sir.

MR. COMMISSIONER HOWLAND: I would like to ask Mr. Tanner the basis of your last paragraph,

and I was rather intrigued with the thought that seems to underly your comments on a National Energy Board. You relate it to protecting Canada's energy resources, and this if the first time I have seen anybody looking at it purely from that point of view. What is the background of your thinking there? I will read it to you: "In our opinion it is doubtful if the formation of a National Energy Board is necessary to protect Canada's energy resources in the national interst." Is this the sole basis on which you discuss this before the Commission -- this Energy Board?

MR. TANNER: Yes, I think so.

MR. COMMISSIONER HOWLAND: It would make a difference, in other words, if you changed the words "adequate protection" to "adequate development"?

MR. TANNER: I think we had in mind more "protection".

MR. COMMISSIONER HARDY: Mr. Chairman, just to follow along on Mr. Britnell's question: You don't consider, Mr. Spratt, I take it, in your comments that prorationing in Alberta is an undue restriction?

MR. SPRATT: No, I do not, Dr. Hardy. Personally, I feel that prorationing is a proper type of regulation as far as the production of oil is concerned. It works within the limits of sound

conservation, which is to prevent waste, and when there is a surplus of supply over demand I think it does three things: it prevents cutthroat competition, which can be particularly hard on small producers. I think that is one of the reasons prorationing was put into effect in Texas about 25 years ago when production got way ahead of demand and cutthroat competition began. I think oil sold as low as 10 or 15¢ a barrel, and a lot of small operators went broke. I think another advantage of prorationing is that it ensures all producers of an equitable share of the market. Another advantage is that if you did not have prorationing, particularly in times when supply exceeded demand, certain producers who had market outlets for their oil would be inclined to take their own oil first -- or, could be inclined to do that -- which could result in a drainage of their neighbour's property who is not in a position to sell his oil.

MR. FRAWLEY: Mr. Spratt, for many years you have been a very prominent figure in the Alberta oil industry -- that is a reasonable statement, isn't it? How many years, Mr. Spratt?

MR. SPRATT: I have been in the Alberta oil industry for some 31 years; I don't know for how many I would have been a prominent figure.

MR. FRAWLEY: You have seen the regulation side of the industry, the refining side, the

transportation side and the production side of the industry?

MR. SPRATT: Within limits, that is correct.

MR. FRAWLEY: I was interested in your first appearance, having gone from the minor leagues into the major leagues -- at least, your are half a major: you said you thought all the alternatives should be explored and examined before you would favour the sending of Alberta oil to the Montreal market?

MR. SPRATT: That is correct.

MR. FRAWLEY: And I suppose when you use the phrase "exploring all the alternatives" you mean a reasonable exploration?

MR. SPRATT: Yes.

MR. FRAWLEY: And there may be a time reached when the waiting and watching period, you would say, could reasonably be abandoned?

MR. SPRATT: I would agree with that.

MR. FRAWLEY: And you will agree that we have not been having too great a success in exporting our oil to the United States?

MR. SPRATT: I would think we have been reasonably successful until this last year when there has been a problem of supply and demand, I gather, from what one has been listening to for the last few days.

MR. FRAWLEY: Would you go so far as to say and agree with me that the prospect does not look too encouraging for the export of our oil into the United States?

MR. SPRATT: Like all local producers, I have been somewhat concerned about that, but I must admit I am encouraged by the testimony brought before the Commission by some of the major producers and refiners during the last few days.

MR. FRAWLEY: You are referring, perhaps, to the possible expansion of the Ontario market?

MR. SPRATT: The possible expansion of Canadian markets, and the possibilities of improving our export to, say, the Puget Sound and Minneapolis areas.

MR. FRAWLEY: Leaving side Puget Sound and Minneapolis, you do appreciate that the expansion of the Ontario market will be conditioned upon the strength of the competition from the Montreal market?

MR. SPRATT: Yes, sir.

MR. FRAWLEY: And the Montreal market at the moment is on foreign crude?

MR. SPRATT: That is right.

MR. FRAWLEY: So it will be a question of cheap Montreal crude -- and I say "cheap" relative to Ontario -- cheap Montreal crude coming into

conflict in the Ontario market with more expensive laid down Alberta crude in the Toronto refineries? That would be the economics of it, however it will work out?

MR. SPRATT: That could be the economics. It could also be the economics along the west coast; we don't know. I gather from the majority of the people we have listened to that they feel that this situation is more or less temporary and that the competition position of Canadian crude as far east as Toronto and as far west as Vancouver, and to the adjoining northern states, should improve as time goes on.

MR. FRAWLEY: Yes, but that has just been a speculation as to how soon there would be an upturn in the present recession, and matters of that kind.

MR. SPRATT: That is correct.

MR. FRAWLEY: As far as the expansion of the Ontario market is concerned, that will be something that will be definitely limited by the strength of the competition coming up from the products made from the cheaper oil crudes laid down in Montreal?

MR. SPRATT: That could be. I do not consider myself sufficiently an authority on the economics of one crude against another to answer that specifically.

MR. FRAWLEY: Mr. Spratt, you do know something about the operations of the Independent Petroleum Association of America -- you have heard about them?

MR. SPRATT: Yes, I have.

MR. FRAWLEY: And they are the people, apparently, who are making the outcry for the restrictions of imports from whatever country.

MR. SPRATT: I believe that is correct.

MR. FRAWLEY: And Canada now has no preference and no preferred position among all of the nations of the world, including the Far East and Middle East, insofar as getting oil into the United States is concerned?

MR. SPRATT: I believe that is correct at the present time as far as regulation is concerned.

MR. FRAWLEY: Yes.

MR. SPRATT: They could, I believe, have a somewhat preferred position as far as the industry is concerned.

MR. FRAWLEY: Yes, but the administration at the moment does not favour any increase in the importation of foreign crude into the United States?

MR. SPRATT: Yes.

MR. FRAWLEY: I mean the Washington administration?

MR. SPRATT: That appears to be correct.

MR. FRAWLEY: And Canada is included in that policy?

MR. SPRATT: They are not excluded.

MR. FRAWLEY: And because they are not excluded, then they are included.

Well, thank you very much.

THE CHAIRMAN: Thank you very much, Mr. Tanner, for what your company has given to the Commission. We are very grateful to you for the time which you and your colleagues have spent in doing this. Despite a little teasing, you appreciate our position. I wish to thank you all very much.

MR. TANNER: Thank you, Mr. Chairman.

---A short recess.

THE CHAIRMAN: The Commission will now resume its hearings. Mr. Patterson.

MR. PATTERSON: Thank you, Mr. Chairman. The Commission will now hear the submission of the British American Oil Company which I would ask to be marked as Exhibit CC-8-2 and before turning to the reading of the submission I would ask Mr. Loughney to introduce the gentlemen who are with him.

---Exhibit CC-8-2: Submission of British American Oil Company.

Submission of

THE BRITISH AMERICAN OIL COMPANY LIMITED

APPEARANCES:

Mr. E.D. Loughney	-	Senior Vice President
Mr. D.L. Campbell	-	Senior Vice President
Mr. O.I. Torkelsen	-	Vice President
Mr. E.J. Gallagher	-	General Manager Production and Pipe Line Department
Mr. J.R. Yarnell	-	Treasurer
Mr. H.S. Sparrow	-	General Manager, Crude and Products Supply
Mr. D.S. Lyall	-	Manager, Economics Co-Ordination Department
Mr. J.F. O'Neil	-	Manager, Crude and Products Supply, Western Division
Mr. A.H. Kemp	-	Advisor, Pipe Line and Construction
Mr. J.A. Strand	-	Petroleum Engineering Supervisor
Mr. S.J. Anderson	-	Production Engineering Advisor

MR. LOUGHNEY: My name is Mr. E.D. Loughney, Senior Vice President. On my immediate right is Mr. D.L. Campbell, Senior Vice President. Mr. H.S. Sparrow and Mr. D.S. Lyall on my left. At the back table on my immediate right is Mr. O.I. Torkelsen, Mr. E.J. Gallagher, Mr. J.A. Strand, Mr. J.F. O'Neil, Mr. S.J. Anderson, Mr. A.H. Kemp, Mr. J.R. Yarnell and

Mr. W.R. Sinclair.

THE CHAIRMAN: Thank you, Mr. Loughney.

MR. LOUGHNEY: Mr. Chairman, members of the Commission: we appreciate this opportunity of appearing once again before the Royal Commission on Energy to present some further thoughts on the important matters being so carefully considered by the Commission.

British American's submission today deals only with potential markets for Canadian crude oil, both domestic and export. In particular, it deals with the economics of the entry of Canadian crude oil into the Montreal refining area as compared with economically more attractive export markets in the United States.

We are also working on other matters in the Commission's terms of reference, such as the proposed National Energy Board, and we ask the Commission's indulgence to make a separate submission on these matters at its hearings to be held later in Toronto.

In our submission today, we shall analyze the factors that are influencing current levels of crude oil production in Western Canada, and shall forecast the levels of production that are likely to be attained in the future.

It will be appreciated that in making such analyses and forecasts, British American has

direct, first-hand knowledge only of its own current operations, and of its own plans for the future.

With respect to the operations and future plans of other companies, we have had to rely on general sources of information and public announcements and, in some cases, to use our best judgment as to what is likely to take place in the light of available information.

In making future projections, especially for the longer term, we have had to make certain assumptions as to annual rates of discovery of new reserves, based on historical averages over a period of years. In actual practice, considerable fluctuations from year to year will be experienced.

Within these limitations, our studies represent our best judgment of what is likely to occur.

I will be assisted today in the reading of the brief by Mr. Campbell, Senior Vice President. With your permission, Mr. Chairman, may I proceed to read the brief?

THE CHAIRMAN: Please proceed, Mr. Loughney and divide it up with Mr. Campbell or anybody else in such a manner as most convenient to you.

MR. LOUGHNEY: Thank you.

Summary: In the following submission we present our estimates of the potential markets for

Canadian crude oil, both domestic and export, and our views on the question of how Canada's reserves of crude oil should be utilized in the best interests of the petroleum industry in Canada, considering all segments of the industry, and of the Canadian economy as a whole.

Our views on this question and the conclusions arrived at in the studies we have made in connection with this submission may be summarized as follows:

1. In 1958 total crude oil production in Western Canada for both export and domestic consumption may not exceed an average of 466,000 barrels per day, which would be equivalent to only about 54 per cent of the present producing potential of the industry.

In our opinion, however, this low level of production anticipated for 1958 is abnormally depressed by several short-term factors, the effect of which will largely have disappeared by 1959. Chief among these are a temporary levelling-off in demand for petroleum products in both Canada and the United States as a result of the current economic recession, and a reduction in inventories by refiners in both countries from the high levels to which inventories had accumulated in 1957. This reduction in inventories by Canadian refiners alone in 1958 we estimate at the equivalent of approxi-

mately 36,000 barrels per day of crude oil production over the entire year.

We anticipate a marked improvement in the situation in 1959, with total production for domestic consumption increasing by approximately 23 per cent, from 366,000 barrels per day in 1958 to 449,000 barrels per day in 1959, with a further increase to 480,000 barrels per day in 1960. With this increase in domestic demand, total production in Western Canada for both export and domestic markets is expected to exceed 549,000 barrels per day in 1959, and 580,000 barrels per day in 1960.

2. For the longer term, we anticipate a major increase in demand for Canadian crude oil in the Toronto refining area in 1962, as a result of the development that is planned by industry in this area to be completed and in operation by the beginning of 1962.

This development will, in effect, amount to a further penetration of Canadian crude oil into the Montreal refining area, by the displacement of products refined in Montreal from imported crude oils with products refined in the Toronto area from Canadian crude oils.

3. Even without an additional market outlet for Canadian crude oil in the Montreal refining area, we expect that industry production

will exceed 68 per cent of producing potential by 1962. An exploration program of something in the order of 1,000 exploratory test wells per year, or approximately the level of exploration activity reached in 1957, will be required to support this anticipated growth in demand.

Any temporary decline in exploration activity which may be due to insufficient revenue from production to finance further exploration will be largely corrected by 1962, even without the Montreal market, which could not be served by a pipe line before 1961 at the earliest.

4. Canadian crude oil is in an excellent competitive position in the major export markets of the Puget Sound refining area of the Pacific Northwest, and in the St. Paul-Minneapolis and Superior refining areas of the mid-western United States.

It is at a very marked competitive disadvantage as against imported crude oils in the Montreal refining area.

If it were necessary for Canadian crude oil, in order to gain entry to the Montreal market, to take a reduction in well-head price to equalize its laid-down cost at Montreal with that of imported crude oils, there would not, in our opinion, be an adequate incentive to the industry in the way of a reasonable return on investment, to find and develop

the new reserves that would be required to supply this additional market.

5. In view of the increase in export demand that we feel is likely to take place within the period of our forecast, and because of the competitive disadvantage that Canadian crude oil would have in the Montreal refining area, the industry would, in our opinion, be ill-advised to commit a substantial volume of Canada's crude oil reserves to the Montreal market, and to undertake a capital expenditure of something in the order of $291 million for pipe line facilities to enable it to reach this market.

This capital expenditure of about $291 million includes about $206 million to provide pipe line facilities to supply the Montreal market over and above the capital outlay of $85 million necessary to expand the capacity of the present pipe line facilities to serve the Toronto-Sarnia refining area.

This expenditure of $291 million for pipe line facilities would be a relatively small portion of the capital outlay that would be necessary to explore and develop the new reserves that would be required to support the pipe line extension to Montreal.

6. To the extent that the competitive advantage of imported crude oils in the Montreal

refining area were reduced by import quotas or tariffs, the refining segment of the petroleum industry in this area, and the Canadian economy in general, would be saddled with a burden of additional cost in supplying the petroleum product requirements of the area served by refineries in Montreal. Moreover, import quotas on crude oil in the Montreal refining area would discriminate against refiners located in this area.

7. With the prospect of an expanding market for Canadian crude oil in the United States over the longer term, and viewing the problem from the standpoint of the Canadian refiner as well as that of the Canadian producer, the entry of Canadian crude oil into Montreal would not be in the best interests of the petroleum industry in Canada or of the Canadian economy in general.

8. Accordingly, it is our recommendation for the utilization of Canada's reserves of crude oil in the manner that will best serve the interest of the Canadian economy as a whole, and of all segments of the petroleum industry in Canada:

(a) That every effort should be made by refiners in areas served by existing pipe line facilities to utilize Canadian crude oil to the greatest extent that is economically feasible, and to enlarge the markets supplied from refinery areas served by existing pipe line facilities.

(b) That every effort should be made by the Canadian Government through representations at the highest level to the Government of the United States to secure a reciprocal arrangement that would permit the unrestricted flow of crude oil and natural gas between Canada and the United States, to the mutual advantage of both countries.

Historical Growth and Present Status of the Industry.

Growth of Reserves and Production: In this section we propose to review briefly the development which has taken place in the petroleum industry in Western Canada in recent years in the way of growth in reserves and production, and to analyze in some detail the factors that affected production in 1956 and 1957, and will affect production in 1958.

In this historical review we have directed our attention mainly to the period 1951 to 1957 inclusive, for which reliable statistical data has been compiled by the Canadian Petroleum Association. Nearly 80 per cent of the total number of exploratory test wells drilled in Western Canada to the end of 1957 were drilled in this period, and approximately two-thirds of the virgin recoverable reserves found in Western Canada to the end of 1957, were discovered in this period.

A summary of available statistical data on reserves, production and exploratory wells drilled for the years 1951 to 1957 inclusive is shown in Schedule I to this submission.

By the end of 1957 the virgin recoverable reserve in Western Canada was 3.785 billion barrels. The cumulative production at this time was 915 million barrels, resulting in a remaining proven reserve on December 31, 1957, of 2.87 billion barrels.

The remaining proven reserve of 2.87 billion barrels is based essentially on primary recovery. Additional reserves from fluid injection or secondary recovery projects were not included unless the additional increase in recovery had actually been demonstrated by the performance of the project. Inasmuch as the majority of the fluid injection projects already underway in Western Canada did not actually go into operation until 1957, most of the additional reserves attributable to these projects were included in the probable category.

Besides additional reserves forthcoming from certain fluid injection projects, probable reserves also include those reserves which can be reasonably expected to result from the extension of the present proven limits of a field, and from increases in the primary recovery factor following additional reservoir performance.

Probable crude oil reserves as estimated by the Canadian Petroleum Association are 822 million barrels.

Total remaining proven and probable reserves for Western Canada are therefore estimated at 3.69 billion barrels.

As demonstrated in B-A's previous submission to the Royal Commission on Energy in February, 1958, it is estimated that the ultimate crude oil reserves in Western Canada to be discovered by primary methods will be about 48 billion barrels. Comparing this figure with the proven virgin recoverable reserves of 3.785 billion barrels, it is apparent that only 8 per cent of the ultimate reserves of crude oil in Western Canada have been discovered to date.

Almost 2.5 billion barrels of new crude oil reserves have been added from 1951 through 1957. These additions to reserves resulted from the drilling of 6,122 exploratory tests, almost 80 per cent of the total of 7,825 exploratory tests drilled in Western Canada to date, including those drilled prior to 1951. The average addition to crude oil reserves per exploratory test drilled during the period 1951-1957 amounted to 404,000 barrels, for an average annual addition to reserves of 348 million barrels over the period. During 1957, 1,058

exploratory tests were drilled in Western Canada.

Producing Potential: Production of Western Canada crude for the year 1946 averaged approximately 18,750 barrels per day; cumulative production to the end of that year was 84,616,000 barrels. After the discovery of Leduc in 1947, production in Western Canada grew rapidly, reaching an average of just over 56,000 barrels per day in 1949. In that year the market demand for crude from Alberta was less than the capacity of the various fields to produce, and for several months a system of purchaser pro ration was used.

Late in 1950 the Alberta Oil and Gas Conservation Board established a plan of pro-rating production to market demand, based on the assignment of maximum producing rates to the various fields consistent with applicable reservoir factors and the ability of the fields to produce. This plan with certain modifications is still in use today.

As the producing potential of Alberta grew, new markets were found for Western Canadian crude oil. In 1950 the Interprovincial Pipe Line was constructed from Edmonton to Superior, linking Alberta oil with refineries in Saskatchewan, Manitoba, and at Superior, Wisconsin. Lake ships transported oil during periods of open navigation to the Sarnia and Toronto refining areas.

In 1953 the Trans Mountain Pipe Line was completed and commenced deliveries of Alberta crude to the Vancouver area. Two years later it was extended to the U.S. Pacific Northwest. The Interprovincial Pipe Line was extended from Superior to Sarnia in 1953 and to Toronto in 1957.

In 1953 oil production in Saskatchewan and Manitoba began to increase sharply. Oil from this area is now supplied to local refineries and also transported through the Interprovincial and Minnesota pipelines to the St. Paul-Minneapolis, Superior and Ontario refining areas. Production from the two provinces increased from an average of 9,450 barrels per day in 1953 to 112,500 barrels per day in 1957.

A summary of the growth in production and the ability of Western Canada to produce is shown below:

	Average Production Rate Barrels per day	Average Producing Potential Barrels per day	Production Rate as Percent of Producing Potential
1946	18,750	18,750	100
1947	18,950	18,950	100
1948	31,200	31,200	100
1949	56,200	100,000	56.2
1950	77,748	190,000	41.0
1951	129,639	210,000	61.6
1952	165,754	265,000	62.5
1953	220,814	325,000	68.0
1954	260,787	365,000	71.4
1955	347,869	535,000	65.0
1956	462,228	750,000	61.6
1957	496,184	870,000	57.0
1958 (estimated)	466,000	870,000	53.6

It will be noted from the above table that there has been a rapid increase in average daily production in each year up to and including 1957. Since 1954, however, there has been a steady decline in the average daily production rate expressed as a percentage of producing potential, from 71.4 per cent in 1954 to 57.0 per cent in 1957. A further decline in this rate to 53.6 per cent is anticipated in 1958, with an average daily production of an estimated 477,000 barrels per day.

The following table summarizes the disposition of crude oil production in Western Canada in the years 1956 and 1957 and the forecast disposition for 1958.

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			Thousands of barrels per day
Exports	1956	1957	Forecast 1958
Puget Sound	52,600	74,200	40,000
Offshore (mainly California)	17,000	19,500	....
Mid-West United States	46,200	57,000	60,000
Total exports	115,800	150,700	100,000
Domestic	346,400	345,300	366,000
Total production	462,200	496,000	466,000

Export Markets: It will be noted from the above table that exports to the Puget Sound area increased from 52,600 barrels per day in 1956 to 74,200 barrels per day in 1957, and are expected to decline to 40,000 barrels per day in 1958.

Similarly the offshore export market (mainly California) increased slightly from 17,000 barrels per day in 1956 to 19,500 barrels per day in 1957. No offshore shipments are anticipated in 1958.

Exports to the mid-western United States increased from 46,200 barrels per day in 1956 to 57,000 barrels per day in 1957, and are expected to show a further increase to 60,000 barrels per day in 1958, reflecting a steady growth in demand for Canadian crude oil in this area.

To a considerable extent, the high level of export demand in the Puget Sound area and in the offshore market in 1956 and 1957 is attributable

to the shortage of ocean tankers that developed during the latter part of 1956 and the first part of 1957 following the closing of the Suez Canal. This increase in export demand in these years was due to an emergency situation, and as a result, crude oil production was at a much higher level than could have been expected from normal growth in export markets.

By contrast, exports to the Puget Sound area in the first few months of 1958 have been at an abnormally low level and are expected to continue at a low level throughout the remainder of the year.

The decline in this export market reflects the levelling-off in demand for petroleum products in the United States which occurred in 1957 and is continuing into 1958. To a considerable extent it is probably to be attributed to the fact that refiners are reducing crude runs and drawing on inventories to supply their current product requirements, in an effort to bring the excessive inventories that accumulated in 1957 into better balance with the current situation of over-supply of products in the area.

The recent application of restrictions on imports of foreign crude oil into the U.S. Pacific Coast area has probably not as yet played a part in the decline of this export market,

since the quotas that have been established for refiners in the Pacific Coast area exceed the volumes of foreign crude oil that they are importing at the present time.

Domestic Markets: It will also be noted from the preceding table that production of Canadian crude oil for domestic consumption in 1957 was at about the same level as in the previous year, reflecting a levelling-off in demand for petroleum products which also occurred in Canada in 1957.

For 1958, however, production of Canadian crude oil for domestic consumption is expected to increase by an average of about 20,000 barrels per day over 1957. In our opinion, the estimated production for domestic consumption in 1958 is abnormally depressed to the extent of something in the order of 36,000 barrels per day below the crude oil requirement necessary to supply anticipated demand for petroleum products in 1958, due to a reduction in refiners' inventories to a corresponding crude oil equivalent.

In 1959, we anticipate a marked improvement in production for domestic consumption with an increase of approximately 23 per cent, from 366,000 barrels per day in 1958 to 449,000 barrels per day in 1959.

That the level to which crude oil production in Western Canada has dropped in recent

months is not indicative of the level of production that is to be expected for the entire year 1958 is, we believe, demonstrated in the following table:

	Last Quarter 1957	First Quarter 1958	Second Quarter 1958 (Estimated)	Last Quarter of 1957 and First Half of 1958	Estimated Production for Entire Year 1958
	(Barrels Per Day)				
Exports					
Puget Sound	62,900	41,800	32,000	45,600	40,000
Mid-West United States	57,300	67,300	60,000	61,500	60,000
Total exports	120,200	109,100	92,000	107,100	100,000
Domestic	315,800	360,800	338,000	338,200	366,000
Total Production	436,000	469,900	430,000	445,300	466,000

It will be noted from the preceding table that production for the last quarter of 1957 and for the first half of 1958 (including estimated production for the second quarter of 1958) at 445,300 barrels per day is some 21,000 barrels per day below the estimated average daily production for the entire year 1958 of 466,000 barrels per day.

In particular, production for the second quarter of 1958 is some 36,000 barrels per day below the anticipated average daily production for the entire year.

To the extent of 8,000 barrels per day, this decline in the second quarter is attributable to a decline in production for export, but the major part of the decline,

amounting to 28,000 barrels per day, is in production for domestic consumption.

This decline in production for domestic consumption, we believe, is attributable to a considerable extent to the fact that refiners will be drawing on inventories to supply their product requirements, particularly on excessive inventory accumulation of middle distillates during a comparatively mild winter. Refinery shut-downs for cleaning and reconditioning of units will also be a factor contributing to the low level of production anticipated in the second quarter of 1958.

May I ask Mr. Campbell to continue with the reading of the brief?

MR. CAMPBELL: Potential Markets for Western Canadian Crude Oil.

To find an answer to the question of how Canada's crude oil reserves should be utilized in the best interests of the Canadian economy as a whole, it is necessary, in our opinion, to examine the prospects for increased production over the longer term and from the standpoint of the Canadian refiner as well as the producer.

This section is concerned with examining the prospects for increased production which will come about through:

(a) Increased demand in markets which, in whole or in part, are being supplied

with Canadian crude oil at the present time, and

(b) the entry of Canadian crude oil into new markets either directly or indirectly. In the latter case, this would occur through the entry of products refined from Canadian crude oil into areas now being supplied with products refined from foreign crude oils.

Domestic Crude Oil Requirements: Growth in the crude oil requirements of Canadian refineries will be determined in the first instance by growth in demand for petroleum products. This may be limited to some extent by the ability of Canadian refineries to balance product yields obtainable from the types and gravities of crude oils available against product demands in the various major product categories -- gasolines, middle distillates, residual fuel and asphalt.

This problem will be further complicated by variations as between individual refiners in the proportions of their own sales of products in the various major product categories. For example, one refiner may have a higher proportion of gasoline sales to sales of middle distillate than another refiner. Each refiner, in order to balance his product yields as closely as possible against his own sales requirements, might

require a different selection of crude oils from the selection which would best meet the combined product requirements of both.

Subject to the above limitations we believe that the growth in refinery crude oil requirements can be predicted with reasonable accuracy.

In estimating the extent to which Canadian crude oil might be utilized to meet projected future refinery crude oil requirements, one must consider, in addition to the physical limitations referred to above, the comparative economics of alternative sources of supply, in order to weigh the advantages that might accrue from increased production of crude oil in Canada against the overall cost to the Canadian economy of supplying its petroleum product requirements in this manner.

The methods used in arriving at our estimates of refinery crude oil requirements in the various areas considered in this section are outlined in Appendix A of this submission.

Two cases of domestic demand (described fully in Appendix B) are considered in this submission. In the first case the Montreal refining area is excluded from the potential domestic demand; in the second case, it is included.

At this point, Mr. Chairman, we would like to read into the record Appendix B, and, to facilitate following our brief, we have some fly

sheets which you may use to keep at hand, which describe Case I and Case II.

If you would turn to Appendix B:

The Two cases of Domestic Demand for Canadian Crude Oil.

Case I. In Case I the potential domestic demand for Canadian crude oil from 1958 to 1967 inclusive is based on the following assumptions:

(1) Refineries in British Columbia, Alberta, Saskatchewan and Manitoba will operate exclusively on Canadian crude oil throughout the entire forecast period.

(2) The portion of the Ontario market in the Cornwall and Ottawa Valley areas will continue to be supplied with products refined in the Montreal area from imported crude oils.

The close proximity of the Cornwall and Ottawa Valley areas to Montreal, coupled with the fact that the product pipe line facilities of Trans-Northern are already supplying these areas, make it appear logical that Montreal would continue as their source of supply.

It is conceivable, however, that the competitive position of Canadian crude oil in the Toronto area might be such that, with the reversal of Trans-Northern Pipe Line anticipated in 1962, it could be economical to supply this area with

products refined in the Toronto area from Canadian crude oil.

(3) In 1962 and subsequent years the Ontario market, excluding the Cornwall and Ottawa Valley areas, will be supplied with products refined in the Sarnia and Toronto areas from Canadian crude oil, except for a limited volume of imported products required to balance refinery yields against market demands.

(4) Prior to 1962 a portion of the product demand in Ontario west of Cornwall, to the extent of a crude oil equivalent of approximately 45,000 barrels per day, will be supplied out of the Montreal refinery area via Trans-Northern Pipe Line.

In 1958 and 1959, a limited volume of imported crude oil will be run at refineries in this area, and a limited volume of imported products required to balance refinery yields against market demands, will continue to enter the area in the years 1958 to 1961 inclusive.

Case II: In Case II we have added to the domestic market estimated in Case I the potential market for Canadian crude oil in the Montreal refining area. Case II is based on the following assumptions:

(1) That, to the extent that it is possible to do so, Canadian crude oil will be

utilized to supply the forecast product demands of the province of Quebec and of the Cornwall and Ottawa Valley areas in Ontario.

(2) That any movement of product from the Montreal refining area into the Atlantic provinces will be offset by product movements into Quebec from refineries now in operation or under construction in the Atlantic provinces.

Levels of Export: Because of the uncertainty of export markets in the United States at the present time, three levels of export demand are considered.

Level A

In Level A, applied to both Case I and Case II in Schedules III and IV of our brief, it is assumed that export demand will remain constant at 100,000 barrels per day throughout the period of the forecast. This is the estimated level of export demand for 1958, of which 60,000 barrels per day is expected to move into the mid-western United States and 40,000 barrels per day into the Puget Sound area.

In assuming that total export demand will remain constant at only 100,000 barrels per day over the next ten years, we believe that we are considering the minimum level to which export

demand is likely to drop over the period.

Level B

In Level B, as applied to both Case I and Case II, it is assumed that export demand will increase from 100,000 barrels per day in 1958 to 180,000 barrels per day in 1967. This assumption contemplates that demand in the mid-western United States will remain constant at 60,000 barrels per day throughout the forecast period, but that demand in the Puget Sound area will increase on a straight line projection from 40,000 barrels per day in 1958 to 120,000 barrels per day in 1967.

This latter figure of 120,000 barrels per day represents the total average daily capacity of refineries in the Puget Sound area in operation or under construction at the present time. It does not consider the possibility that other new refineries may be built in the area which will provide an additional market for Canadian crude oil.

Level C

In Level C, as applied to Case I and Case II, it is assumed that export demand will increase from 100,000 barrels per day in 1958 to 480,000 barrels per day in 1967. This assumption contemplates that export demand in the mid-western United States will remain constant at 60,000 barrels

per day, but that demand in the West Coast area will increase on a straight line projection from 40,000 barrels per day in 1958 to 420,000 barrels per day in 1967.

This latter figure of 420,000 barrels per day is the estimated demand for Canadian crude oil in the West Coast of the United States in 1966 in a study published in May, 1957, by the Petroleum Department of the Chase Manhattan Bank, entitled "Future Growth of the West Coast Petroleum Industry."

It represents a more optimistic view of potential export markets for Canadian crude oil and possibly the upper limit of potential export demand, as compared with the minimum level assumed in the A cases and an intermediate level assumed in the B cases.

At this point I would like to shift the reading back to Mr. Loughney and he will read Appendix A.

MR. LOUGHNEY: Crude Oil Requirements.

As previously noted, growth in the crude oil requirement of Canadian refineries will be determined in the first instance by growth in demand for petroleum products, but may be limited to some extent by the ability of Canadian refineries to balance product yields obtainable from the types and gravities of crude oils available, against product demands in the various major product

categories -- gasolines, middle distillates, residual fuel and asphalt.

Future Demand for Petroleum Products: In general our procedure in estimating future demand for petroleum products was to estimate the demand in 1967, the last year of the forecast period, and from the total increase in demand over the entire period, to calculate the average annual rate of increase in demand. This was then applied to our estimate of demand for 1957 as the base year, to arrive at the estimated volumes for individual years of the forecast period.

The volumes estimated for individual years of the forecast period, therefore, represent a general trend of growth in demand over the entire period. They do not take into account annual fluctuations in demand above or below the general trend.

It follows, therefore, that the actual volume of demand in individual years of the forecast period could, and undoubtedly will, vary from the volumes estimated for each year on the basis of the predicted general trend, but the general trend for the entire period would be still realized.

In estimating demands in 1967, we first made projections of population growth and Gross National Product. From these projections were derived such secondary demand factors as personal

disposable income, useful in estimating motor vehicle registrations on which our estimates of gasoline demand were based; and household formations, useful in estimating consumption of fuel oils for heating, which account for roughly 60 per cent of total consumption of products in the middle distillate category.

In general, we believe that our estimates of motor gasoline consumption are well supported by statistical data and will prove to be fairly accurate over the long term. Our estimates of middle distillate consumption are subject to a greater possible margin of error for two reasons:

1. The limited amount of statistical data available on the end-use of products in the middle distillate category.
2. The difficulty of accurately assessing, at this time, the impact of natural gas on the heating fuel market in those areas into which natural gas from Western Canada has recently made, or will in the near future be making its first entry.

If anything, we believe that our estimates of demand for middle distillates may be somewhat on the high side. As will be explained later, however, this would not materially affect our estimates of crude oil requirements of Canadian

refineries since it has been assumed that, in general, the refineries will be operated to meet gasoline demands with maximum yield of middle distillates.

Because of the comparatively low ratio of gasoline demand to demand for middle distillates in British Columbia, and in Eastern Canada, it is not possible for refineries in these areas to balance the product yields obtainable from available Canadian crude oils against product demands, and to produce the volumes of middle distillates required without producing surplus volumes of gasoline in excess of indicated demands.

Accordingly, in operating to meet gasoline demands, the yield of middle distillates obtainable from available crude oils falls short of indicated demands and it is necessary for the industry as a whole to import middle distillates to make up these deficiencies.

To the extent that our estimates of middle distillate demand may be high, required imports of middle distillates would tend to be reduced, but refinery crude oil requirements would not be materially affected.

THE CHAIRMAN: I think possibly, Mr. Loughney, this would be a good place to break for lunch.

We will adjourn now, gentlemen, and

reassemble here, in this room, at two o'clock this afternoon.

---Whereupon the hearing adjourned, at 12.30 p.m., until 2.00 p.m.

Take
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---On resuming at 2 p.m.

THE CHAIRMAN: Gentlemen, the Commission will now resume its hearing. Mr. Loughney?

MR. LOUGHNEY: Thank you, Mr. Chairman. I will resume reading the brief, starting on page 30.

Refinery Crude Oil Requirements: In estimating the crude oil required to supply the Ontario and Quebec markets, an analysis of the gravity of available crude oils was made to calculate the percentage yields of products in the various product categories that could be obtained from these crude oils. From these percentage yields, the volume of products in each of the major product categories that could be manufactured from available crude oils was calculated. This calculation having been made, the volume of imported products required to balance refinery yields against market demands was determined.

Schedule II is a summary of the crude oil requirements to meet the forecast domestic demand for petroleum products in each of the geographical areas shown based on the calculated yield structures. Gasoline demands have been met in all areas. Demands for other products have been met to the extent that it is possible to do so from available Canadian crude oils under the calculated yield structures.

The crude oil requirement and hence the potential market for Canadian crude oil shown in Schedule II represents the crude oil equivalent of the estimated product demand in each area.

In the case of British Columbia, Ontario and Quebec, refinery supply areas approximate very closely the product demand areas shown. For all practical purposes, therefore, the crude oil equivalent of forecast product demands in these areas may be taken as the crude oil requirement of refineries located in these areas.

This is also true of the Prairie Provinces in total. For Alberta, Saskatchewan and Manitoba individually, some variation may be expected from the volumes shown for each province in Schedule II and the crude oil requirement of refineries located in each province, because of shipments of products to another province.

The extent to which Canadian crude oil might be utilized to supply these indicated crude oil requirements will depend on the following factors:

1. Main trunk pipe line facilities to transport crude oil to refinery centres.
2. Adequate refinery capacity to process the forecast crude oil requirement of the various geographical areas.
3. Adequate facilities for the economic

distribution of refined petroleum products from refineries to marketing supply points.

In British Columbia and the three Prairie Provinces there are no limitations of this nature, which would restrict full utilization of Canadian crude oil to meet the forecast requirements of geographical areas, on the assumption, of course, that present refining and pipe line facilities will be expanded as and when required to meet indicated growth in demand.

In Ontario and Quebec, however, there are at the present time certain physical limitations of pipe line and refinery capacity, which would restrict utilization of Canadian crude oil in supplying product demands in these geographical areas.

Ontario: On completion of its current expansion program in September, 1958, Interprovincial Pipe Line will have sufficient capacity to deliver 257,000 barrels per day as far as Sarnia, of which 109,000 barrels per day could be transported into Toronto.

At the end of 1957 total refinery capacity in the Sarnia and Toronto areas was approximately 200,000 barrels per calendar day. This will be augmented by an additional 20,000 barrels per day late in 1958 on completion of a new refinery now under construction in the Toronto area, and

other plans for expansion of refinery capacity in this area have been announced.

Quebec: The entry of Canadian crude oil into the Montreal refining area is, of course, dependent on the construction of main trunk pipe line facilities to transport crude oil from Western Canada to Montreal. In our opinion, the required pipe line facilities to serve this market could not be completed and in operation until late in 1960 at the earliest and probably not until 1961.

In our projection of potential markets for Canadian crude oil in the Montreal area, we have assumed, however, that it would be possible for Canadian crude oil to enter the Montreal area at the beginning of 1960.

Our projection of potential markets for Canadian crude oil takes into account these physical limitations on utilization of Canadian crude oil in the earlier years of the forecast period.

In particular, with respect to the crude oil requirements shown in Schedule II for Ontario and Quebec, the following points are noted:

1958: The total Canadian crude oil requirement for Ontario (excluding the Cornwall and Ottawa Valley areas) of 159,000 barrels per day in 1958 is based on information obtained from various sources and approximates very closely a forecast for industry published by the Dominion

Bureau of Statistics. As shown in Schedule V, we believe that this requirement has been reduced to the extent of something in the order of 17,000 barrels per day, due to the fact that refineries in the area are drawing on inventories to this extent to supply the 1958 product demands in the area.

1959: The increase in crude oil requirement of 52,000 barrels per day in 1959 over 1958, bringing the potential market in Ontario to 211,900 barrels per day in 1959, assumes that all refineries in Ontario will be operating on Canadian crude oil in 1959. In addition to the increase from anticipated growth in demand for petroleum products in the area, this potential market of 211,900 barrels per day reflects an additional crude run of 17,500 barrels per day at a new refinery under construction in the Toronto area at the present time and scheduled to come on stream late in 195 . It also assumes that the volume of foreign crude oil imported into Ontario will be reduced from 21,000 barrels per day in 1958 to 6,000 barrels per day in 1959.

1960: The further increase in crude oil requirement of approximately 20,000 barrels per day shown for Ontario in 1960 reflects a further anticipated growth in demand for petroleum products in the area, and the complete elimination of imported crude oils.

The potential market of 228,900 barrels per day shown for the Montreal refining area in 1960 assumes that pipe line facilities to transport Western Canadian crude oil to Montreal could be constructed and in operation by the beginning of 1960. Included in this total requirement of 228,900 barrels per day is a requirement of some 75,000 barrels per day to supply, out of Montreal, product demands in the Cornwall and Ottawa Valley areas, with an estimated crude oil equivalent of 30,000 barrels per day, and a portion of the product demand west of Cornwall and into the Toronto area, to the extent of a crude oil equivalent of approximately 45,000 barrels per day.

1961: The increases in crude oil requirements shown for both Ontario and Quebec reflect anticipated growth in demand for petroleum products in these areas. The requirement of 239,800 barrels per day shown for Montreal again includes some 75,000 barrels per day to supply a portion of the demand in Ontario.

1962: It is anticipated there will be a major addition to refinery capacity in the Toronto area coming on stream at the beginning of 1962. As a result, it is expected that the Trans-Northern Products Pipe Line will be reversed as from the first of the year for the shipment of products out of the Toronto refining area in an easterly direction

as far as Farran's Point, the junction of Trans-Northern's spur line to Ottawa.

This would cirtually eliminate any further shipment of products from the Montreal refining area into Ontario west of Farran's Point. Taking into account anticipated growth in demand, Ontario's crude oil requirement would increase by about 60,500 barrels per day, from 247,800 barrels per day in 1961 to 308,300 barrels per day in 1962.

On the other hand, the crude oil requirement of the Montreal refining area would be reduced from 239,800 barrels per day in 1961 to 204,900 barrels per day in 1962, as a result of this change in the distribution pattern. Included in this 204,900 barrels per day for the Montreal area would still be a crude oil requirement of 30,000 barrels per day to supply product demands in the Cornwall and Ottawa Valley areas out of Montreal.

It is quite conceivable that, with the reversal of Trans-Northern Pipe Line at the beginning of 1962, a considerable portion of this demand in the Cornwall and Ottawa Valley areas could be economically supplied with products refined in the Toronto area from Canadian crude oil. To the extent of any such displacement the potential market for Canadian crude oil in Ontario as shown in Schedule II would be increased and the potential market 204,900 barrels per day shown for Quebec correspond-

ingly reduced.

1963-1967: The potential markets for Canadian crude oil in Ontario and Quebec for the remainder of the forecast period (1963 to 1967 inclusive) reflect the anticipated growth in demand for petroleum products in these areas in these years.

It will be noted that the potential market in Ontario increases from 308,300 barrels per day in 1962 to 396,200 barrels per day in 1967, and the potential market in Quebec from 204,900 barrels per day in 1962 to 261,400 barrels per day in 1967.

Summary: With the development that is anticipated in Ontario in the next few years, the potential market for Canadian crude oil in the Montreal refining area will not exceed 240,000 barrels per day in 1961, declining to 204,900 barrels per day in 1962, and increasing gradually in each year thereafter to 261,400 barrels per day in 1967.

In order to supply the crude oil requirements of the Montreal refining area in 1961, the pipe line capacity of Interprovincial would have to be expanded to permit a minimum delivery of 484,000 barrels per day as far as Sarnia, of which approximately 158,000 barrels per day would be taken off at Sarnia. The remaining 326,000 barrels would proceed to the Toronto refining area where some 86,000 barrels per day would be taken off, and the balance of 240,000 barrels per day would be delivered to Montreal.

In Schedules V to IX inclusive we show our estimate of crude oil demand and product supply for all Canada excluding the Atlantic Provinces for the years 1958, 1962 and 1967.

1958: For the year 1958 we have shown in Schedule V, the crude oil requirement for Quebec (including the Ottawa Valley) as being supplied from foreign crude oils imported into Montreal. Refined product demands for 1958, on which estimated crude oil requirements in this year are based, are our best estimate of demand in the light of the statistics on consumption of petroleum products in Canada in 1957 recently published by the Dominion Bureau of Statistics, and in the light of the temporary levelling-off in demand in the current economic recession.

1962: For 1962, we have shown in Shedule VI the crude oil requirements of Quebec (including the Ottawa Valley) as being met from imported crude oils refined in Montreal.

In Schedule VII we have shown the crude oil requirements of this area supplied from Canadian crude oil refined at Montreal.

1967: Similarly for 1967, we have shown the crude oil requirements of Quebec including the Ottawa Valley being met with imported crude oils (Schedule VIII) and with Canadian crude oils (Schedule IX).

As will be seen from Schedules VI to IX and as summarized in the table below, in operating on higher gravity Canadian crude oils to meet gasoline demands, refiners in the Montreal area would produce a smaller percentage of the total middle distillate and residual demands than would be the case if they were operating on available lower gravity foreign crude oils. This would result in an over-all reduction in total crude run at refineries in the area, and an increase in the level of refined products that would have to be imported into the area to balance refinery yields of products against market demands.

	Total Crude Run	Required Imports to Balance Refinery Yields: Middle Distillate	Required Imports to Balance Refinery Yields: Residual	Total Imports Required
	(Thousands of Barrels Per Day)			
1962				
Operating on available Canadian crude oils	204.9	37.0	44.5	81.5
Operating on available foreign crude oils	222.6	24.7	40.7	65.4
1967				
Operating on available Canadian crude oils	261.4	54.7	50.9	105.6
Operating on available foreign crude oils	283.8	39.0	46.1	85.1

Now, Mr. Chairman, Mr. Campbell will resume reading the text on page 11.

MR. CAMPBELL: Case 1: Case I is our

best estimate of the potential domestic demand for Canadian crude oil in each of the years 1958 to 1967 inclusive, based on the following assumptions:

(a) That Western Canada's refineries operate wholly on Canadian crude;

(b) That the portion of the Ontario market in the Cornwall and Ottawa Valley areas will continue to be supplied with products refined in the Montreal area from imported foreign crude oils, although it is conceivable, that with a change in the distribution pattern for petroleum products anticipated by 1962, the requirements of this area could be economically supplied with products refined in the Sarnia-Toronto area from Canadian crude oil;

(c) That in 1962 and subsequent years the Ontario market, excluding the Cornwall and Ottawa Valley areas, will be supplied with products refined in the Sarnia-Toronto area from Canadian crude oil, except for a limited volume of imported products required to balance refinery yields against market demands. Prior to 1962 a portion of this area will be supplied with products refined in Montreal from imported foreign crude oils and shipped into the area via Trans-Northern

Pipe Line.

In our opinion, Case I is what is likely to take place in the way of expansion of the Ontario market for Western Canadian crude oil, in the light of existing and planned refinery and pipe line facilities in the area.

I would like to refer you to Appendix F on page 46 and read Appendix into the record.

Maximum Economic Utilization of Existing Refinery and Pipe Line Facilities: At the end of 1957, the total refining capacity in the Montreal area was approximately 255,000 barrels per calendar day. The crude oil requirements of refineries in the area are supplied by imported crude oils which for the most part are transported by ocean tanker to Portland, Maine, and thence by pipe line to Montreal through the Montreal-Portland Pipe Line, which has a capacity of approximately 258,000 barrels per day.

In addition to supplying most of the product demands of Quebec, the Montreal refining area in 1958 will supply a portion of the product demands of Ontario to the extent of an estimated crude oil equivalent of 75,000 barrels per day, of which 30,000 barrels per day will be supplied to the Cornwall and Ottawa Valley areas.

Most of this Ontario requirement will be shipped through the Trans-Northern products pipe

line, which, at the present time, runs from Montreal to Toronto with a spur line to Ottawa, and an extension from Toronto to Hamilton. The capacity of Trans-Northern, in terms of crude oil equivalent of products transported, is approximately 86,000 barrels per day.

The close proximity of the Cornwall and Ottawa Valley areas to Montreal, coupled with the fact that the product pipe line facilities of Trans-Northern are already supplying these areas make it appear logical that Montreal would continue as their source of supply.

On the other hand, it also appears logical to expect that the main source of supply for products in the area of Ontario west of the junction of Trans-Northern's spur line to Ottawa at Farran's Point which is now being supplied out of Montreal, will shift from Montreal to Toronto by 1962, with the construction of additional new refinery capacity in the Toronto area prior to that date.

In this event, it is expected that Trans-Northern Pipe Line would be reversed as far east as Farran's Point. This reversal of Trans-Northern would eliminate most of the product movement from Montreal into Ontario west of Farran's Point, as refiners in the Toronto area would then have pipe line facilities for supplying this demand out of

Toronto.

This shifting of demand from the Montreal to the Toronto refining area would reduce the crude oil requirement of the Montreal refining area to something in the order of 205,000 barrels per day, and would create surplus refining capacity in the Montreal area, as well as surplus capacity in the Portland-Montreal Pipe Line.

This does not appear to be too serious, as the reduced crude oil requirement of 205,000 barrels per day for the Montreal area in 1962 would be only about 10 per cent less than the estimated crude oil requirements of the area for 1958. The effect of this change in the supply pattern would, therefore, probably be some deferment of refinery expansion in the Montreal area.

The entry of Canadian crude oil into the Montreal area in any substantial volume would probably result in shutting down the Portland-Montreal Pipe Line, at a substantial economic loss to the refiners in Montreal who are the sole shareholders of the companies that operate this line.

In addition, refiners in Montreal either own, or have long-term charter commitments for ocean tankers to supply their crude oil requirements. The idling of these tanker fleets could also result in substantial loss to these refiners.

Now, may we return to the main text on

page 11?

Case I is a continuation of the orderly eastward expansion of markets for Canadian crude oil that has been taking place over the last several years.

British American's own experience in increasing utilization of Canadian crude oil at its Clarkson refinery in the Toronto area to supply its product requirements in Ontario is shown in the following table:

Percentage of Canadian Crude Oil Processed at Clarkson Refinery:

1950	Nil	1955	56%
1951	12%	1956	67%
1952	13%	1957	78%
1953	47%	1958(estimated)	89%
1954	55%	1959(estimated)	100%

As will be seen from the above table, British American plans to utilize 100 per cent Canadian crude oil at Clarkson in 1959, providing a suitable asphalt-type crude oil can be obtained in sufficient volume from Western Canada.

The steady increase in utilization of Canadian crude oil at Clarkson up until 1957, as shown in the above table, was made possible by the construction of a $4.5 million lake tanker, which was employed in transporting crude oil from Superior to Clarkson prior to the extension of the

Interprovincial Pipe Line to Clarkson in 1957.

A major expansion of refining capacity at Clarkson from 20,000 barrels per day to 60,000 barrels per day, at a capital cost of approximately $20 million, was completed in October, 1957, to coincide with the extension of Interprovincial's facilities to the Toronto area.

Immediately on completion of this expansion, British American increased its receipts of Canadian crude oil at Clarkson from 15,000 barrels per day to 34,000 barrels per day, with a corresponding reduction in crude runs at its Montreal refinery. With its increased capacity at Clarkson, British American is now in a position to utilize additional volumes of Canadian crude oil to supply the product requirements of the Ontario market, as soon as the reversal of existing product pipe line facilities east of Toronto would make it economically feasible to do so.

This would effect a further penetration of Canadian crude oil into the Montreal refining area through the displacement of products now being refined from imported crude oils in the Montreal area and shipped into Ontario by pipe line,with products refined in the Sarnia-Toronto area from Canadian crude oil.

Case II: In Case II we have added to the potential domestic demand estimated in Case I

the potential market for Canadian crude oil in the Montreal refining area.

The potential domestic markets for Canadian crude oil under Cases I and II for each of the years 1958 to 1967 inclusive are shown in Schedule II and graphically in Exhibit I.

It will be noted from Schedule II that potential domestic markets for Canadian crude oil under Case I (excluding the Montreal refining area) and Case II (including the Montreal refining area) would show the following increases over the next ten years:

Potential Domestic Markets

	1958	1962	1967	Percentage Increases 1967 over 1958
	(Thousands of Barrels per day)			
Case I	366	580	728	99%
Case II	366	785	989	170%

Potential Export Markets: A major factor in the future growth of markets for Canadian crude oil will be the development of export markets in the United States. The logical export markets in the United States are the Puget Sound refining area, already served by Trans Mountain Pipe Line, and the mid-western United States, supplied by Interprovincial Pipe Line.

While these two areas offer the greatest possibility for increased production of Canadian crude oil for export, there are other potential

export markets in the United States into which Canadian crude oil is likely to penetrate in substantial volumes as the United States becomes increasingly dependent on foreign sources of crude oil. Chief among these other potential export markets are California on the West Coast, and the Chicago, Detroit and Toledo refining areas in the Great Lakes Region.

At the present time, it is difficult to assess accurately the potential market for Canadian crude oil in these areas. Reflecting the economic recession which became apparent early in 1957, domestic consumption of petroleum products in the United States in 1957 fell short of original expectations and showed virtually no increase over 1956. Industry forecasts for 1958 predict very little increase in demand.

By contrast, the average annual rate of growth in consumption of petroleum products in the United States over the last forty years has been in the order of 6 per cent per year. This average long-term growth rate of 6 per cent per year was maintained with remarkable consistency throughout the entire forty-year period. There does not appear to be any reason why it should not continue in the future despite short-term deviations from the long-term trend.

Coupled with this temporary levelling-off

in consumption of petroleum products, a world-wide over-supply of crude oil has developed.

These two factors have led to the adoption of a program for voluntary restriction on imports of crude oil into the United States, and the establishment of quotas for various United States refining areas, which could materially affect the volumes of Canadian crude oil that might otherwise move into available export markets in the United States.

While these import restrictions continue, there will be a preference on the part of refiners in the United States to utilize as much crude as possible from those sources in which they will have a larger percentage of owned production, and to supplement their product requirements in areas accessible to Canadian crude oils in which they have a relatively small share of owned production, with products refined from crude oils from other sources.

Moreover, the continuation of these import restrictions might also result in the postponement of refinery construction planned in areas accessible to Canadian crude oils that might otherwise provide additional markets for Canadian crude oil.

For the near term, therefore, the outlook for export markets for Canadian crude oil in

the United States is clouded with uncertainty. On the other hand, informed opinion on the subject indicates that over the next ten years the growth in consumption of petroleum products in the United States and the decline in producing potential will be such that the United States will become increasingly dependent on foreign sources of crude oil.

Over the long term, therefore, because of our favourable geographic location and strong competitive position, we are confident that there will be an increasing demand of significant proportions for Canadian crude oil in the United States.

Because of the present uncertainty with regard to export, we have considered three different levels of export demand for both Cases I and II.

With Level A, export demand is assumed to remain constant at 100,000 barrels per day throughout the forecast period.

With Level B, it is assumed that export demand will increase from 100,000 barrels per day in 1958 to 180,000 barrels per day in 1967.

With Level C, the assumption is an increase in export demand from 100,000 barrels per day in 1958 to 480,000 barrels per day in 1967. (See Appendix B).

In Schedule III we show for each of the years 1958 to 1967 inclusive, the total potential market for Canadian crude oil (domestic and export)

at the three levels of export demand noted above, with the Montreal refining area excluded from the potential domestic market in all three cases.

Similarly in Schedule IV, we show for each of the years 1958 to 1967 inclusive, the total potential market for Canadian crude oil (domestic and export) at the same three levels of export demand with the Montreal refining area included in the potential domestic market in all three cases.

These projections in Schedules III and IV are shown graphically in Exhibit I and are summarized in the following table:

TOTAL POTENTIAL MARKET FOR CANADIAN CRUDE OIL
(Domestic and Export)

	1958			1967			
	Domestic	Export	Total	Domestic	Export	Total	Percentage Increase
Excluding Montreal Refining Area							
Case IA	366	100	466	728.3	100	828.3	78%
Case IB	366	100	466	728.3	180	908.3	95%
Case IC	366	100	466	728.3	480	1,208.3	159%
Including Montreal Refining Area							
Case IIA	366	100	466	989.7	100	1,089.7	134%
Case IIB	366	100	466	989.7	180	1,169.7	151%
Case IIC	366	100	466	989.7	480	1,469.7	215%

At all three levels of export demand it has been assumed that the export market in the mid-western United States will remain constant throughout the forecast period, at the level of demand of 60,000 barrels per day anticipated for 1958. This assumption is based on the fact that there have been no announced plans for new refineries in the area.

As will be explained later in this submission, Canadian crude oil has a competitive advantage in the Superior and St. Paul-Minneapolis areas. While quota restrictions in imports may limit the volume of Canadian crude oil moving into this area in the immediate future, over the longer term there is every reason to expect a substantial growth in this export market in excess of the present level of demand of 60,000 barrels per day.

Referring again to the summary of the various cases considered in the above table, it will be seen that even in Case IB, with the Montreal refining area excluded from domestic demand and with export demand reaching only 180,000 barrels per day in 1967, Canadian crude oil production in 1967 will increase by 95 per cent over the level of production of 466,000 barrels per day anticipated for 1958.

Weighing all the factors, we believe that Case IB is a conservative projection, particularly with respect to export markets. We anticipate that the

demand for production of Canadian crude oil in 1967 will be substantially in excess of the 908,000 barrels per day shown in Case IB and could well reach the level of 1,208,000 barrels per day shown in Case IC.

In our opinion, therefore, the long term outlook for Canadian crude oil production is highly promising even without an additional market for Canadian crude oil in the Montreal refining area.

As a major producer of crude oil in Western C nada, with approximately 8 per cent of total industry production, British American has a vital interest in the development of additional markets for Canadian crude oil. We therefore believe that every potential market for Canadian crude oil should be thoroughly explored and evaluated.

From the standpoint of the Canadian producer, the increased production that would result from an additional market outlet in the Montreal area would confer an obvious benefit, provided of course,that Canadian crude oil could enter this market without a substantial reduction in well-head price to the producer. This benefit to the producer from increased production would commence immediately upon completion of the necessary pipe line facilities to transport Western Canadian crude oil to Montreal. In our opinion, these facilities could not be

completed and in operation until late 1960 at the earliest, and probably not until 1961.

On the other hand, the benefit to the Canadian producer from an additional major market outlet in Montreal as early as 1961 should be carefully weighed against possible disadvantages in committing a substantial volume of Canadian crude oil reserves to this market over the longer term, and against the over-all cost to the Canadian economy of supplying the Montreal market with Canadian crude oil as against imported crude oils.

This is essentially a question of the over-all economics of crude oil and product supply, which will be determined by two major factors:

1. The competitive position of Canadian crude oil in the Montreal area as against imported crude oils. In determining this competitive position, the capital cost of pipe line facilities to transport Canadian crude oil to Montreal and the resulting pipe line tariffs will be the major considerations.

2. The complications of a long-term commitment of Canadian crude oil to the Montreal market, which would be essential for the financing of a crude oil pipe line to Montreal, in view of the potential export markets which would be economically more favorable to the Canadian producer.

MR. LOUGHNEY: ECONOMICS OF ENTRY OF CANADIAN CRUDE OIL INTO POTENTIAL DOMESTIC AND EXPORT MARKETS.

(1) Competitive Position of Canadian Crude Oil in Potential Domestic and Export Markets:

In evaluating the potential market for Canadian crude oil in the Montreal refining area, the first major factor to be considered is the competitive position of Canadian crude oil as against crude oil from other sources of supply, not only in the Montreal market itself, but also in possible alternative export markets that would provide an economically more favorable outlet for Canadian production.

As previously noted, the major export markets for Canadian crude oil are in the Puget Sound refining area of the Pacific Northwest and the St. Paul-Minneapolis area of the mid-western United States.

Puget Sound Area: From the standpoint of laid-down cost, Canadian crude oil is in a very strong competitive position in this area as against other crude oils. By reason of the relatively close proximity of Canadian crude to the area and established pipe line connections, the transportation cost component of its total laid-down cost is considerably less than in the case of crude oils from offshore sources of supply. This is shown in the following table:

Crude Source	Transportation and Miscellaneous Cost Component	Total Laid-Down Cost	Redwater laid-down cost is:
Redwater (35°)	$0.55	$3.29	$ -
Sumatra (34°)	1.05	3.27	0.02 Higher
Kuwait (31°)	1.46	3.31	0.02 Lower
Arabia (34°)	1.41	3.49	0.20 Lower
Venezuela (34°)	0.75	3.77	0.48 Lower
California (35°)	0.24	3.85	0.56 Lower

The method of calculation of the costs shown in the above table is explained in Appendix C to this submission.

It will be seen from the above table that, from the standpoint of laid-down cost, Canadian crude oil at the present time is competitive in the Puget Sound area with Sumatra and Kuwait crude oils, and has a very definite competitive advantage over crude oils from other sources of supply, ranging from 20 cents over Arabian crude oil up to 48 cents over Venezuelan crude oil and 56 cents over Californian crude oil.

As the share of Canadian crude oil in this market increases, the increasing volume of pipe line throughput would tend to reduce transportation cost per barrel, and this would further improve the competitive position of Canadian crude oil in this area.

St. Paul-Minneapolis Area: Again, by reason of its relative proximity and established pipe line connections, Canadian crude oil is in a strong competitive position in the St. Paul-Minneapolis

area of the mid-western United States.

The major portion of the product demand in this area is supplied by products shipped there by pipe line from refining centres to the east and south. Even in the face of this competition from pipe line products, Canadian crude oil has established itself in this market. The largest refinery in the area was constructed expressly to take advantage of the accessibility and price advantage of using Canadian crude oil.

Moreover, because of the remoteness of the St. Paul-Minneapolis area from tidewater sources of supply, the competitive position of Canadian crude is reasonably assured.

Montreal Refining Area: In the table set out below, we have made a comparison of the present laid-down cost in the Montreal refining area of various imported crude oils with our own estimate of the cost of laying down Redwater crude oil of 35° gravity by pipe line from Edmonton to Montreal.

Redwater crude oil of 35° gravity has been selected for this comparison as being representative of the type and gravity of Canadian crude oils that would be available for the Montreal market, on the basis of the types and gravities of crude oils that have been discovered in Western Canada to date, and on the

basis of the probable disposition of available Canadian crude oils and product yield structures.

In this connection it is pointed out that the main pipe line streams available in Eastern Canada at the present time are Redwater at about 35° gravity and a blended crude stream of 36° to 37° gravity which is priced approximately the same as Redwater.

In this table, a comparison is made with the laid-down cost of imported crude oils of the types and gravities that are being brought into Montreal at the present time. In 1957, the Montreal-Portland Pipe Line delivered an average of about 224,000 barrels per day of imported crude oil into Montreal. Of these deliveries, approximately 84 per cent was Venezuelan crude oil with the balance accounted for by crude oils from Trinidad, the United States, Arabia, Kuwait, Iran and Iraq. The average gravity of Venezuelan crude oil deliveries by Montreal-Portland Pipe Line in 1957 was about 31°.

Accordingly, for this comparison, we have selected Mesa crude oil of 31° gravity as a typical Venezuelan crude oil of the type and gravity of the crude oils imported into the Montreal refining area at the present time.

We have also shown in the table the laid-down cost of Kuwait crude, which is being

imported at the present time in substantial quantities.

For purposes of comparison, it has been assumed that Canadian and United States funds are at par of exchange and the price of Redwater crude oil has been adjusted to par of exchange. The laid-down costs shown in the table are therefore the costs that would be incurred by the refiners in Montreal with Canadian and United States funds at par of exchange. Transportation charges from Edmonton to Montreal are based on a pipe line tariff of 75 cents per barrel, plus allowance for line loss of approximately 3 cents.

The last column of the table shows the competitive disadvantage in laid-down cost of Redwater crude oil.

Crude Source	Transportation and Miscellaneous Cost Component	Total Laid-Down Cost	Redwater Laid-Down Cost is:
Redwater (35°)	$0.78	$3.50	$ -
Kuwait (31°)	1.20	3.05	0.45 Higher
Arabian (34°)	1.15	3.23	0.27 Higher
Venezuelan-Mesa (31°)	0.38	3.24	0.26 Higher

Mr. Campbell will now read Appendix C.

THE CHAIRMAN: Do you think you need to read Appendix C? We can take it as read into the record, Mr. Loughney.

MR. CAMPBELL: Very well.

THE CHAIRMAN: It is your calculation of pipeline economics.

MR. CAMPBELL: It is the laid-down cost

of Canadian crude oil.

THE CHAIRMAN: I will leave it to you as to whether or not you feel you should read it or take it as read.

MR. CAMPBELL: We will take it as read.

THE CHAIRMAN: It will go into the record in exactly the same way.

MR. CAMPBELL: Yes, sir.

APPENDIX C. COMPETITIVE LAID-DOWN COST OF CANADIAN AND FOREIGN CRUDE OILS IN THE MONTREAL REFINING AREA AND IN POTENTIAL EXPORT MARKETS IN THE UNITED STATES.

Exhibit 5 to this submission is a map which shows the competitive laid-down cost of Canadian and foreign crude oils in the Montreal refining area and in present or potential export markets in the United States.

For purposes of illustration, Redwater crude oil of 35° API has been selected as a typical Canadian crude oil, and its laid-down cost compared with that of crude oil from other sources.

An ocean tanker rate of USMC minus 40 per cent has been assumed in calculating the transportation cost component of offshore imported crude oils. This rate is considered to be representative of present day costs for regular tanker movements. There will, of course, be exceptions both above and below this rate, especially in the case of occasional or spot cargoes.

For purposes of comparison, it has been assumed that Canadian and United States funds are at par of exchange and the price of Redwater crude oil has been adjusted to par of exchange. The laid-down costs used in the comparison are therefore the costs that would be incurred by refiners in the Montreal area with Canadian and United States funds at par of exchange.

Where the usual method of transportation is by ocean tanker, laid-down costs include transportation costs from port of loading to port of discharge, the cost of loading and un-loading, and import duties where applicable.

In the case of imported crude oils in the Montreal refining area, cost of transportation is based on the ocean tanker rate from port of loading to Portland, Maine, and includes the pipe line tariff and line loss allowance for shipment to Montreal via the Montreal-Portland Pipe Line. This is the usual method of delivery of offshore crude oils to the Montreal refining area, although some direct deliveries by tanker are made to this area.

Where the usual or proposed method of delivery is by pipe line, transportation costs include only main trunk line is included in the price of the crude oil. In the case of foreign crude oils, gathering charges are included in the price at port of loading.

In the case of Redwater crude oil the price at Edmonton includes approximately 9 cents per barrel for transportation from the field to Edmonton. For other types of Canadian crude oil, the cost of transportation to Edmonton may vary from 5 cents to 30 cents per barrel, depending on distance of the field from Edmonton.

It will be seen from Exhibit 5 that foreign crude oils can be delivered to all tidewater points shown by tanker at competitive laid-down costs or at a marked competitive advantage, even absorbing in some cases transportation costs in excess of $1.00 per barrel.

Although the crude oil costs shown in Exhibit 5 may change from time to time, it is probable that their relative costs will remain about the same.

The estimated transportation charge included in the laid-down cost of Redwater crude oil in the above table is based on an estimated throughput to Montreal of 240,000 barrels per day, equivalent to our forecast of the crude oil requirement of the Montreal refining area in 1961.

The basis of calculation of this transportation charge is explained in Appendix D to this submission. The crude oil requirement of the Montreal refining area, as noted previously, is expected to drop to 205,000 barrels per day in 1962, with the

line facilities for crude oil transportation from the Prairie Provinces to Ontario and Montreal, we have assumed that Interprovincial Pipe Line would be expanded as additional capacity is required to meet the refinery demands. Our estimates are based on only those facilities that would provide adequate capacity through 1967.

We have predicated our cost estimates on the following assumptions:

(1) The capacity of Interprovincial's system would be increased by building partial loops of large diameter pipe and installing additional pumping equipment where necessary to meet the increased throughput requirements.

(2) The cost of transportation allows sufficient earnings to provide a net return of 8 per cent on the total investment.

(3) Depreciation has been calculated at a rate of 3½ per cent and interest at a maximum rate of 5 per cent.

(4) A rate of 47 per cent has been used for income tax purposes and other taxes have been estimated at 1 per cent of the investment.

In arriving at tariff rates, the cost of transportation, including operating expenses, earnings and income tax, has been allocated to the various segments of the systems on the basis of the total barrel-miles in each segment.

reversal of Trans-Northern Pipe Line in that year, and not exceed 240,000 barrels per day again until 1966. We feel, therefore, that our estimated pipe line tariff of 75 cents per barrel can be considered as a realistic cost of transporting Canadian crude oil from Edmonton to Montreal.

Appendix D deals with pipeline economics. Would you like to have that read?

THE CHAIRMAN: I think we can take it as read, sir.

MR. CAMPBELL: I see.

THE CHAIRMAN: The Commission has received testimony on this and has already had an opportunity to read the brief.

MR. LOUGHNEY: There is one correction in that table on page 43, Mr. Borden. If I may call it to your attention, please?

THE CHAIRMAN: Certainly.

MR. LOUGHNEY: Under Case No. 1 1962 is shown as 205,000 barrels per day from Montreal. That should be eliminated. It should not be in there. There is no Montreal throughput at that time. The same is true in 1967. Under Case 1 the 1962 total, Sarnia and Toronto 304,000 barrels is the total in that column and at 392,000 in the 1967 column.

THE CHAIRMAN: Thank you.

APPENDIX D. PIPE LINE ECONOMICS

In considering the need for additional pipe

The earning rate for oil pipe lines gives recognition to the fact that the element of risk is relatively higher in the case of crude oil pipe lines usually operate on the principle of a common carrier, without guaranteed through-put commitments that assure high and constant load factors. By comparison, gas transmission systems generally function as public utilities transmitting their own products and operating with high load factors, which tend to create more economical operations.

Case I: Upon completion of Interprovincial's present expansion program, sufficient capacity will be available to meet our forecast through 1961.

In order to meet the forecast through 1967, we have assumed the system would be expanded in two steps; first in 1961 to handle demands through 1964, and in 1964 to meet 1967 requirements. By the use of large diameter pipe, only partial looping would be necessary. This would allow further expansion by complete looping, should additional capacity be required to meet increased demand beyond 1967.

Case II: Case II differs from Case I in that the forecast requirements of Montreal would require the immediate expansion of Interprovincial as well as the extension of the system to Montreal.

The forecast indicates that prior to the

increase in refinery facilities in the Toronto area and the reversal of Trans-Northern Pipe Line, the Montreal demand would be 240,000 barrels per day in 1961. With reversal of Trans-Northern, the Montreal demand would decrease to 205,000 barrels per day in 1962 and gradually increase to 261,000 barrels per day in 1967. On this premise we have assumed that Interprovincial would be expanded during 1959-60 to meet forecast demands through 1963.

With the increase in Ontario demands, further expansion would be necessary in 1963 for 1964 requirements. This expansion would be made to provide sufficient capacity to meet 1967 forecasts.

We have also considered the possibility of:

(1) Expanding Interprovincial to meet the Ontario demand only, and

(2) Building an independent line from Edmonton to Montreal to handle the Montreal demand only.

This independent line is estimated to cost $308,930,000, and in addition, it would still be necessary to spend substantial amounts to meet the expanding demand on the Interprovincial system. The tariff rate to Montreal would be 86 cents per barrel in the fifth year of operation, against 75 cents per barrel for the extension of Interprovincial.

MR. LOUGHNEY: There is a correction in that table on page 43.

THE CHAIRMAN: Just while we are here, Mr. Loughney, I am quite ignorant as to the terminology but I have an opportunity to learn from you. What do you include in the middle distillate in the industry?

MR. CAMPBELL: In that diesel fuel, stove oil, domestic heating oils are called oil distillates.

THE CHAIRMAN: And residual?

MR. CAMPBELL: Bunker fuel, heavy black residual fuel.

THE CHAIRMAN: Where does the gasoline come in?

MR. CAMPBELL: Gasoline comes in right up at the top. Gasoline is a middle distillate, residual fuel and asphalt.

THE CHAIRMAN: Thank you very much.

(See next page for table.)

The following table summarizes our estimates of investment costs and tariff rates exclusive of pipe lines loss allowance, to meet the forecast demands.

	CASE I		CASE II		Separate Line Edmonton to Montreal
	1962	1967	1961	1967	1961
Estimated take-offs on which tariffs shown below are based (Bbls. per day)					
Sarnia	164,000	204,000	158,000	204,000	-
Toronto	140,000	188,000	86,000	188,000	-
Total Sarnia and Toronto	304,000	392,000	244,000	392,000	-
Montreal	205,000	261,000	240,000	261,000	240,000
Grand total	509,000	653,000	484,000	653,000	240,000
Estimated tariff rate in cents per barrel from Edmonton to:					
Sarnia (64)°	56	54	57	49	-
Toronto (72)°	62	57	62	53	-
Montreal	-	-	75	64	90
Additional capital cost of pipe line facilities on which tariffs are based** (cumulative)	$24,624,000	$85,320,000	$235,252,000	$291,544,000	$308,930,000 ***

NOTES

* Present tariff rates.

** As noted in text, the capital expenditures shown under Case I would be incurred in the years 1961 and 1964 respectively. The capital expenditures shown under Case II would be incurred in 1959-1960 and in 1963 respectively.

*** In addition to the capital cost of $308,930,000 for a separate line, it would still be necessary to spend substantial amounts to meet the expanding demands on the Interprovincial system.

We are of the opinion that:

(1) Crude oil from Western Canada could not be delivered to Montreal by pipe line before 1961, and

(2) Interprovincial can be expanded to accommodate increased demands of Ontario and maintain the flexibility of being suitable for extension to Montreal at some future time, should it become desirable from an economic standpoint or national emergency.

It is recognized that in gravity and other characteristics, mainly sulphur content, that Redwater and Kuwait are not comparable crude oils. It is nevertheless a fact that certain refiners in the Montreal area have installed the necessary refining facilities to enable them to utilize Kuwait and other low-cost foreign crude oils in their refining operations. The differential of 45 cents per barrel shown in the above table in favor of Kuwait crude oil represents a real penalty that would be incurred by these refiners in operating on Canadian crude oils instead of Kuwait.

It is recognized also that Venezuelan crude oil of a comparable gravity to Redwater 35° API would lay down at a higher cost than the cost of Mesa 31° API shown in the table by approximately 17 cents per barrel. We do not believe, however, that this would be a realistic comparison, as the preference of refiners in the Montreal area for lower gravity crude oils to balance product yields against market

demands is established by the gravities of the crude oils that they have in fact been importing into the area.

The differentials of 26 cents per barrel in favor of Mesa 31° API and of 45 cents per barrel in favor of Kuwait crude oil are, we believe, a realistic indication of the additional costs that would be incurred by refiners in the Montreal area in switching to Canadian crude oils.

In projecting the crude oil requirements of the Montreal refining area on a total industry basis, no cognizance is taken of the fact that the crude oil requirements of individual refiners in the area will vary considerably from the total requirement projected on an industry basis, because of variations as between individual refiners in the proportion of their sales in various major product categories.

Another important factor which has not been taken into account in our projection of the potential market for Canadian crude oil in the Montreal refining area is that specialty crude oils now being imported into Montreal for the manufacture of naphthenic lubricating oils and asphalt may not be available from Western Canada. The necessity of continuing to import specialty crude oils for this purpose would reduce the potential market for Canadian crude oil in the Montreal area shown in our projection possibly by as much as 25,000 barrels per day.

Because of the comparatively high ratio of demand for middle distillates to gasoline demand in Quebec, refiners in the Montreal area, operating on higher gravity Canadian crude oils to meet gasoline demands, would produce a smaller percentage of the total middle distillate and residual demand than would be the case if they were operating on available lower gravity foreign crude oils. This would result in an over-all reduction in total crude run at refineries in the area, and an increase in the volume of refined products that would have to be imported into the area to balance refinery yields of products against market demands.

MR. LOUGHNEY: This is shown in Schedules VI and IX inclusive, and is summarized in the following table for the years 1962 and 1967:

Imports Required to Balance Refinery Yields

1962	Total Crude Run	Middle Distillate	Residual	Total Imports Required
	Thousands of Barrels per Day			
Operating on Available Canadian crude oils	204.9	37.0	44.5	81.5
Operating on available foreign crude oils	222.6	24.7	40.7	65.4
1967				
Operating on Available Canadian crude oils	261.4	54.7	50.9	105.6
Operating on available foreign crude oils	233.8	39.0	46.1	85.1

The competitive disadvantage of Canadian crude oils in the Montreal market previously indicated in this section is based on conditions as they exist today. It is quite conceivable that Canadian crude oil would be at a still greater competitive disadvantage in the future as the cost of ocean tanker transportation would tend to be reduced with the increased employment of larger tankers.

A final point to be considered is that the higher cost of Canadian crude oils in the Montreal

refining area would increase the cost of products refined in the area, as against the cost of products refined from imported crude oils in the Maritime Provinces. This would tend to extend the product supply area of refineries in the Maritime Provinces at the expense of refineries in the Montreal area, and to increase crude runs of imported crude oils in the Maritime refineries at the expense of the Montreal refineries.

Taking all these factors into account, we are firmly of the opinion, that the cost of crude oil to supply the product requirements in the economic supply area of the Montreal refineries (that is, Quebec including the Cornwall and Ottawa Valley area in Ontario) would be increased by something in the order of 26 cents to 45 cents per barrel if the Montreal refineries were operated on Canadian crude oils instead of foreign crude oils, unless there were a corresponding reduction in the wellhead price of Canadian crude oils.

In our opinion, as a major producer in Western Canada, the industry could not absorb a price reduction of this magnitude and obtain any sort of a reasonable rate of return on the investment required to find and develop the reserves needed to supply this market.

MR. CAMPBELL: (2) Implications of Committing Canadian Crude Oil Reserves to the

Montreal Market.

In order to finance the construction of pipe line facilities to transport Western Canadian crude oil to the Montreal market it would be necessary to have throughput guarantees from refiners in Montreal, which would effectively commit a substantial portion of Canadian crude oil reserves to this market for an extended period. In this subsection, we propose to consider the implications of such a commitment, in the light of the prospects of growth in export markets that would be economically more favourable to the Canadian producer by virtue of the competitive advantage that Canadian crude oil would enjoy in these markets.

In Appendix E we have projected the reserves required for each of the various cases of total crude oil demand (domestic and export) considered earlier in this submission. We have also projected the exploration programmes necessary to support these required reserves, production in each year of the forecast period 1958 to 1967 inclusive, and production in each year as a percentage of the producing potential.

At this point, Mr. Chairman, we would like to read Appendix E into the record, and I am going to call on Mr. Anderson to do so. We wish to do that because there is some comment we wish

to make on the graphs shown here in this room.

THE CHAIRMAN: Certainly.

MR. ANDERSON: Reserves and Exploratory Program Required for Anticipated Demand.

Reserves required to meet the total demand for Canadian crude oil, and the exploratory program necessary to meet the various cases of Canadian and export demand previously described, are shown in Schedules XI and XII for the ten-year period 1958 to 1967. A comparison of Cases I and II for the three levels of export demand is demonstrated graphically in Exhibits 2, 3 and 4.

In projecting future crude oil reserves for the various cases of demand considered, it was assumed that initially 1,000 exploratory tests per year would be drilled and that 400,000 barrels of new crude oil reserves would be discovered per test. This is essentially the same discovery rate per test that has been experienced in Western Canada during the period 1951-1957, while the number of exploratory tests assumed to be drilled each year is somewhat less than the 1,058 exploratory tests actually drilled during 1957, but greater than the average for the year 1951 to 1957.

At the 1957 production rate of approximately 500,000 barrels per day the remaining reserve of 2.87 billion barrels at the end of 1957

has an effective life of about 16 years. At the 1957 potential producing rate of 870,000 barrels per day, the remaining reserve has an effective life of about 9 years.

For the projections shown in Schedules XI and XII, at such time as the remaining reserves equivalent to a 10-year supply at current production rates could no longer be maintained at the initial exploratory effort, it was assumed that additional wells were drilled sufficient to assure a ten-year supply. A summary of the data is presented in Schedule X.

Case I.

As shown in Schedule XI, anticipated increases in Canadian demand exclusive of the Montreal market and at an export level averaging 100,000 barrels per day (Case IA) or 180,000 barrels per day in 1967 (Case IB) will require an exploratory effort no greater than that experienced during the year 1957. In 1967 the production reaches 828,300 barrels per day in Case IA (68 per cent of potential) and 908,300 barrels per day in Case IB (78 per cent of potential), compared with the anticipated production for 1958 of 466,000 barrels per day or about 54 per cent of the producing potential.

In Case IC, which considers export demand increasing to 480,000 barrels per day in 1967,

resulting in a production rate building up to 1.2 million barrels per day at the end of the forecast period, additional exploratory effort would have to be commenced some time prior to 1965. During 1967, 1,800 exploratory tests are required to be drilled to assure a ten-year supply of reserves at the 1967 producing rate. For Case IC, 4.681 billion barrels of reserves would be added during the period, resulting in a virgin recoverable reserve of 8.5 billion barrels at the end of 1967.

Case II.

The anticipated increases in the demands for Canadian crude oil including the Montreal market will require increased exploratory activity over and above the 1957 level commencing some time prior to 1966, 1964 and 1961 for Cases IIA, IIB and IIC respectively.

For the maximum export level (Case IIC), the production rate increases to 1.5 million barrels per day and 2,120 exploratory tests are required to be drilled in 1967. In Case IIC, 6.314 billion barrels of new reserves are added during the forecast period, resulting in a virgin recoverable reserve of 10.1 billion barrels by the end of 1967.

By way of summary you may find it interesting to refer to Schedules XI and XII in

the brief. These schedules show daily production, exploratory wells, remaining reserve, cumulative virgin reserve, producing potential and production rate as a per cent of producing potential, for all levels of domestic and export demand discussed in our submission. Exhibits 1 through 4 show these data graphically.

Moving over to the exhibits that we have displayed, on Exhibit 1 the shaded portion of the bar graph represents the domestic demand for Canadian crude and the dashed portion the export demand.

In the first Case (I-A), production in 1958 consisting of 366,000 B/D for domestic and 100,000 B/D for export or 466,000 B/D total, increases to 828,300 B/D in 1967 made up of 728,300 B/D for domestic and 100,000 B/D for export. With the Montreal market added, (Case II-A), the production rate would increase to 1,089,700 B/D by 1967.

Proceeding now to Exhibit 2, in Case 1-A, an exploratory programme of 1,000 wells per year is sufficient to support the demands shown for the entire ten-year period and the producing potential remains above the demand, increasing from 54 per cent in 1958 to 68 per cent in 1967. Cumulative virgin reserves reach 7.8 billion barrels by the end of the period and remaining

reserves would be 4.4 billion barrels.

In Case II-A, which adds the Montreal market demand to Case I-A, 1,000 wells per year will support the demand to 1965, while in 1966 the production rate reaches 100 per cent of potential and exploration activity would be stepped up. Cumulative virgin reserves are 8.0 billion barrels by 1967 and about 4 billion remain.

Going back now to Exhibit 1, in the next Case (1-B), production for domestic and export demand is the same as previously noted for 1958 but export demand increases to 180,000 B/D by 1967. Total production, therefore, is estimated at 908,300 B/D in 1967. Adding Montreal (II-B), production in 1967 amounts to 1,169,700 B/D.

Proceeding now to Exhibit 3, in Case I-B an exploratory programme of 1,000 wells annually again can support the estimated demands for the entire ten-year period but the production rate as a per cent of potential increases to 78 per cent in 1967 from 54 per cent in 1958. Cumulative virgin reserves are 7.8 billion by 1967 and 4.3 billion remain.

If the Montreal demand is added (II-B) production reaches 100 per cent of potential by 1964 and exploratory wells increase to 1,555 in the year 1967. Cumulative virgin reserve reaches 8.5 billion by 1967 and 4.3 would remain.

Going back to Exhibit 1, for Case I-C production in 1958 is again the same but by 1967 production for export markets reaches 480,000 B/D. This in addition to the 728,300 B/D for domestic demand brings total production to 1,208,303 B/D by the end of the period.

If the Montreal demand is added, production reaches 1,469,700 B/D in 1967.

Going now to Exhibit 4, even without the Montreal market (Case I-C), production would reach 100 per cent of potential by 1965 and exploration activity would be increased. 1,800 exploratory wells would be drilled in the year 1967. Cumulative virgin reserves would be 8.5 billion in 1967 and 4.4 billion remain.

Adding the Montreal market (II-C), makes it necessary to increase exploratory drilling by 1961 and by the end of the forecast period 2,120 wells would be drilled annually. Cumulative virgin reserves would reach 10.1 billion by 1967 and 5.4 billion remain.

As stated in our brief we expect future production from Western Canada will be somewhere between the Case I-B and I-C levels.

At this point, Mr. Campbell will continue with the reading of the brief.

MR. CAMPBELL: We have previously stated our opinion that the projected demand for Canadian

crude oil in Case IB (excluding the Montreal refining area and with export demand increasing to only 180,000 barrels per day by 1967)is a conservative projection.

It will be noted from Schedule X that under Case IB, with exploration activity maintained at 1,000 exploratory tests per year and with an average discovery rate of 400 million barrels of new reserves per year throughout the forecast period, the industry would reach 68 per cent of producing potential by 1962, and 78 per cent by 1967.

Should demand increase as in Case IC (again excluding the Montreal market but with export demand increasing to 480,000 barrels per day by 1967), the industry would reach 85 per cent of producing potential in 1962 and 100 per cent in 1965. In order to maintain a reserves-to-production ratio of 10 to 1, exploration activity would have to be stepped up to 1,800 exploratory tests per year by 1967, and 4.7 billion barrels of new reserves would have to be found in the forecast period as compared with 3.8 billion barrels of reserves found in Western Canada to the end of 1957.

We feel that the growth in export markets for Canadian crude oil will probably fall somewhere between the B and C levels.

In this event, even without the Montreal market, and with an exploration activity of 1,000 exploratory test wells per year, we expect that industry production will reach something between 714,000 and 850,000 barrels per day (between 68 per cent and 85 per cent of producing potential) by 1962.

By 1967, we expect that industry production will reach something between 908,000 and 1,208,000 barrels per day (between 78 per cent and 100 per cent of producing potential).

Pipe line facilities to transport Canadian crude oil to Montreal are not likely to be completed and in operation before 1961. Even without the Montreal market, we expect industry production to exceed 68 per cent of producing potential by 1962, and an exploration programme of something in the order of 1,000 exploratory test wells per year will be necessary to support this anticipated growth in demand.

We, therefore, can see no reason to anticipate any decline in exploration activity in Western Canada over the longer term from the level of 1,000 exploratory test wells per year reached in 1957.

For the shorter term, any temporary decline in exploration activity due to insufficient revenue from production to finance further exploration

will be largely corrected by 1962 even without this additional market which could not be served by a pipe line before 1961 at the earliest.

As noted in Appendix D, the capital cost of the pipe line facilities required to transport Canadian crude oil to Montreal is estimated in the order of $291 million, or $206 million more than the estimated cost of $85 million to expand Interprovincial's facilities to supply the increasing requirements of the Sarnia and Toronto refining areas only. We believe there is a good prospect of a reasonable increase in export demand within the period of our forecast. The industry would, in our opinion, be ill-advised to undertake a capital expenditure of this magnitude to gain entry for Canadian crude oil in a market where it would be at a competitive disadvantage with imported foreign crude oils.

The capital requirements facing the petroleum industry for exploration and development activity in the next ten years, as indicated in our earlier submission to the Royal Commission on Energy in February, 1958, were estimated to be in the order of $7.4 billion.

It is clear from Schedule X that at all three levels of export demand, a marked increase in exploration activity would be necessary within the forecast period to find the additional reserves

required to support the total demand under Case II with the Montreal market included in domestic demand.

If the industry were required to meet the capital requirements for exploration and development work necessary to furnish crude oil to refineries in the Montreal area, we estimate that the capital needs of the industry would approach $10 billion over the next ten years.

If it were necessary for Canadian crude oil, in order to gain entry to the Montreal market, to take a reduction in wellhead price to equalize its laid-down cost at Montreal with that of imported crude oils, there would not, as previously stated, be an adequate incentive to the industry in the way of a reasonable return on the investment to find and develop the new reserves that would be required to supply this additional market.

To the extent that the competitive advantage of imported foreign crude oils in this market were reduced by import quotas or tariffs, the refining segment of the petroleum industry and the Canadian economy in general would be saddled with an additional burden of cost in supplying the petroleum product requirements of the area served by refineries in Montreal.

MR. LOUGHNEY: Conclusions and Recommendation.

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TORONTO, ONTARIO

1. Estimated Increase in Domestic Demand for Canadian Crude Oil: Growth in domestic demand for Canadian crude oil will show the following increases over the next ten years:

	1958	1962	1967	Percentage Increase 1967 over 1958
	(Thousands of Barrels per Day)			
Case I (excluding Montreal)	366	580	728	99%
Case II (including Montreal)	366	785	989	170%

Both these cases of domestic demand anticipate an expansion of the market for Canadian crude oil in the Toronto refining area, resulting in a further penetration of the Montreal market through the displacement of products refined in Montreal from imported crude oils with products refined in the Toronto area from Canadian crude oils.

2. Estimated Increase in Total Demand (Domestic and Export) for Canadian Crude Oil:

In our opinion, total demand for Canadian crude oil, both domestic and export and with the Montreal refining area excluded from domestic demand, is likely to fall somewhere between Case IB and Case IC shown in the following table:

Excluding Montreal Market	1958	1962	1967	Percentage Increase 1967 over 1958
	(Thousands of barrels per day)			
Case IB	466	714	908	95%
Case IC	466	850	1,208	159%

3. Potential Market for Canadian Crude Oil in Montreal Refining Area: We estimate that the potential market for Canadian crude oil in the Montreal refining area would not exceed 240,000 barrels per day in 1961, would decline to 205,000 barrels per day in 1962, increasing gradually in each year thereafter to 261,000 barrels per day in 1967.

4. Competitive Position of Canadian Crude Oil in Montreal Market and Potential Export Markets: Canadian crude oil is in an excellent competitive position in the major export markets of the Puget Sound and St. Paul-Minneapolis refining areas of the United States.

It is at a competitive disadvantage as against imported crude oils in the Montreal refining area.

5. Implications of Committing Canadian Crude Oil Reserves to Montreal Refining Area:

(a) Exploration Activity in Western Canada

Even without the Montreal market, industry production of crude oil in

Western Canada is expected to exceed 68 per cent of producing potential by 1962. A programme in the order of 1,000 exploratory test wells per year, or approximately the level of activity reached in 1957, will be required to support this anticipated growth in demand.

With the Montreal market included in domestic demand, a very marked increase in exploration activity would be necessary to find the additional reserves required to support this additional demand.

If it were necessary for Canadian crude oil, in order to gain entry to the Montreal market, to meet the competition of imported crude oils, there would not, in our opinion, be an adequate incentive to the industry in the way of a reasonable return on investment to find and develop the new reserves required to supply this additional market.

(b) Capital Undertaking

With the increase in export demand that we feel is likely to take place within the period of our forecast, the industry would, in our opinion, be

ill-advised to undertake a capital expenditure of $206 million for pipe line facilities, plus $2.6 billion to find and develop the necessary reserves to gain entry for Canadian crude oil into the Montreal market, where it would be at a competitive disadvantage with imported crude oils.

(c) Effect of Quotas and Tariffs

To the extent that the competitive advantage of imported crude oils in the Montreal refining area were reduced by import quotas or tariffs, the Canadian economy in general would be saddled with a burden of additional cost for petroleum products.

I would like Mr. Campbell to read our recommendation.

MR. CAMPBELL: 6. Recommendation.

With the prospect of an expanding market for Canadian crude oil in the United States over the longer term, and viewing the problem from the standpoint of the Canadian refiner as well as that of the Canadian producer, the entry of Canadian crude oil into the Montreal refining area would not be in the best interests of the petroleum industry in Canada or of the Canadian economy in general.

Accordingly, it is our recommendation for the utilization of Canada's reserves of crude oil in the manner that will best serve the interest of the Canadian economy as a whole, and of all segments of the petroleum industry in Canada:

(a) That every effort should be made by refiners in areas served by existing pipe line facilities, to utilize Canadian crude oil to the greatest extent that is economically feasible and to enlarge the markets supplied from refinery areas served by existing pipe line facilities.

(b) That every effort should be made by the Canadian Government through representations at the highest level to the Government of the United States, to secure a reciprocal arrangement which would permit the unrestricted flow of crude oil and natural gas between Canada and the United States, to the mutual advantage of both countries.

That is our submission, sir.

THE CHAIRMAN: Thank you very much indeed, Mr. Loughney and Mr. Campbell and gentlemen. I think we shall have a ten-minute break.

MR. PATTILLO: Mr. Chairman, just before we have the break, because of our schedule being pretty tight, may I make this suggestion to the company and to the Commission, that we

sit tonight until five o'clock and that we start tomorrow morning at nine-thirty. One of the problems tomorrow will be that we will have to stop the sittings at four o'clock, because this room will be required for other purposes; so I was thinking that if we did those two things -- mind you, I realize I am asking a lot of the Reporters, the Commission and the Company, to sit until five o'clock, but I will try to make it up to them in not asking difficult questions.

THE CHAIRMAN: I am sure, as far as the Commission is concerned, they are very sensitive to the problem we have got ourselves into of being so crowded as to time in the matter of our schedule and we would be willing to sit and try to get through the log jam. I presume that would be satisfactory to counsel; they would be quite happy with that arrangement. Mr. Frawley?

MR. FRAWLEY: Yes, sir.

THE CHAIRMAN: Is that satisfactory to you, Mr. Loughney?

MR. LOUGHNEY: Yes, sir.

THE CHAIRMAN: And can you work that out, Mr. Reporter?

THE REPORTER: Yes, sir.

THE CHAIRMAN: All right. We will have a ten-minute break and carry on until five o'clock.

---A short recess.

THE CHAIRMAN: Gentlemen, the Commission will now resume its hearings. Mr. Pattillo?

MR. PATTILLO: Thank you, Mr. Chairman.

Mr. Loughney, I will address the questions to you, and you can answer them yourself or designate anyone whom you wish to answer them.

First, I would like to try and get, if I can, on the record the present factual situation of B-A and its operations in Canada, and the operations of Gulf in the United States and in the world. Starting in with the shareholdings of B-A, what percentage of the shareholdings are presently owned by Gulf?

MR. LOUGHNEY: Fifty-eight per cent.

MR. PATTILLO: And of the remaining 42 per cent what per cent is held in Canada?

MR. LOUGHNEY: 32.33 per cent.

MR. PATTILLO: 32.33?

MR. LOUGHNEY: Yes, sir.

MR. PATTILLO: Approximately one-third of the remaining shares are held in Canada. Where are the other two-thirds held?

MR. LOUGHNEY: Well, actually, Gulf holds 58 per cent, and 6.32 per cent are held in the United States by others, and 3.35 other.

MR. PATTILLO: So that the 32 per cent is of the whole and not of the remainder?

MR. LOUGHNEY: That is right, sir, yes.

MR. PATTILLO: I notice that you very recently had an annual meeting and that a new board of directors was elected: of the present new board how many are Canadians?

MR. LOUGHNEY: There are nine.

MR. PATTILLO: And how many non-Canadians?

MR. LOUGHNEY: Six.

MR. PATTILLO: Are any of the non-Canadians nominees of Gulf?

MR. LOUGHNEY: No, sir.

MR. PATTILLO: Of the six non-Canadians on the board how many of them, if you know, were former employees of Gulf in the United States or elsewhere in the world?

MR. LOUGHNEY: Three.

MR. PATTILLO: That would be Mr. Brock, yourself -- and who else?

MR. LOUGHNEY: Mr. J. L. Linker, Vice-President of Marketing.

MR. PATTILLO: Are any of the directors of B-A also directors of Gulf?

MR. LOUGHNEY: No, sir.

MR. PATTILLO: Do any of the directors of B-A hold any position in the Gulf organization?

MR. LOUGHNEY: No, they do not.

MR. PATTILLO: There has been evidence given that Gulf operates in Venezuela; is that correct?

MR. LOUGHNEY: Yes, sir.

MR. PATTILLO: And that it also operates in the Middle East?

MR. LOUGHNEY: Correct.

MR. PATTILLO: And that it operates in Texas?

MR. LOUGHNEY: Yes, sir.

MR. PATTILLO: Am I correct in thinking that it is in the producing business of oil in all of those territories?

MR. LOUGHNEY: Yes, it is.

MR. PATTILLO: Does B-A, through a subsidiary, operate a producing business in Texas?

MR. LOUGHNEY: It does, yes, sir.

MR. PATTILLO: Where does that subsidiary of B-A sell its production?

MR. LOUGHNEY: It is sold in the United States.

MR. PATTILLO: To whom?

MR. LOUGHNEY: To whomever they can find that will buy it.

MR. PATTILLO: Gulf?

MR. LOUGHNEY: Gulf is one of the purchasers.

MR. PATTILLO: Does the B-A subsidiary in the United States operate any pro rationing?

MR. LOUGHNEY: Yes, it does.

MR. PATTILLO: And Gulf also does in

the United States?

MR. LOUGHNEY: Yes, sir.

MR. PATTILLO: Am I correct in thinking that in the Middle East and in Venezuela, Gulf does not operate under pro rationing?

MR. LOUGHNEY: Not unless it is a self-imposed pro rationing due to market positions.

MR. PATTILLO: Where does B-A carry on producing operations in Canada?

MR. LOUGHNEY: Producing operations?

MR. PATTILLO: Yes.

MR. LOUGHNEY: In British Columbia, Alberta, Saskatchewan and Manitoba.

MR. PATTILLO: In all four provinces?

MR. LOUGHNEY: Yes, sir.

MR. PATTILLO: And has it production in all four provinces?

MR. LOUGHNEY: Yes, it has.

MR. PATTILLO: What is the aggregate MPR of B-A at the present time from its producing operations in Canada?

MR. LOUGHNEY: 78,108 barrels.

MR. PATTILLO: Per day?

MR. LOUGHNEY: Yes, sir.

MR. PATTILLO: And, actually, what is the company producing and selling per day at the present time?

MR. LOUGHNEY: I can give you the figure

for the month of March.

MR. PATTILLO: That will be fine.

MR. LOUGHNEY: In Alberta, 26,026 barrels; Saskatchewan, 9,034 barrels; Manitoba, 486 barrels; British Columbia, 106 barrels; for a total of 35,652 barrels.

MR. PATTILLO: And Alberta is the only place where you have pro rationing in these four provinces?

MR. LOUGHNEY: Yes, sir -- that is, pro rationing to market demand.

MR. PATTILLO: What is the company's practice so far as its production in the other provinces is concerned: does it use its own production, or does it sell it to third persons?

MR. LOUGHNEY: Well, part of it we use in our own operations and part of it is sold to others.

MR. PATTILLO: Let me put this to you: do you merely sell the excess of your requirements to others so far as the other provinces' production are concerned?

MR. LOUGHNEY: Actually, we are a net buyer to Canada; that is, we buy more crude than we produce.

MR. PATTILLO: I understand that, but I am thinking about your production in these provinces of Saskatchewan, Manitoba and British

Columbia: you have a pretty small production in Manitoba; do you use that entirely yourself?

MR. LOUGHNEY: Mr. Campbell will answer that.

MR. CAMPBELL: Mr. Pattillo, our production in Saskatchewan and Manitoba is going into pipe line blended screens; part of those blended screens go to our refineries, and part of the screen goes to others. Does that answer your question?

MR. PATTILLO: No, it doesn't quite answer my question. Let us take your Saskatchewan production, which is quite substantial -- 19,000?

MR. CAMPBELL: Nine thousand.

MR. PATTILLO: Do you nominate for shipment over the Interprovincial that whole 9,000 barrels for yourself -- I concede you don't get the actual barrels you put in there out, but do you get the equivalent amount out for B-A's own refineries?

MR. CAMPBELL: Yes, we take out more than that.

MR. PATTILLO: So, what I am getting at is, so far as your production in Saskatchewan, Manitoba and British Columbia is concerned, posted price is of no significance to B-A? It is the cost of finding, developing and lifting the oil

that only need come into the picture; is that correct?

MR. LOUGHNEY: Yes, but the posted price is of significance. We buy more crude than we produce.

MR. PATTILLO: I appreciate that, but that only relates to the excess over your own production, doesn't it?

MR. LOUGHNEY: That is correct.

MR. PATTILLO: In dealing with your refineries, where is your most easterly refinery in Canada?

MR. CAMPBELL: In Montreal.

MR. PATTILLO: What is its capacity?

MR. CAMPBELL: Fifty thousand barrels daily.

MR. PATTILLO: What is the source of its crude?

MR. CAMPBELL: Ocean-borne crude, mainly from Venezuela.

MR. PATTILLO: When you say mainly from Venezuela, what per cent?

MR. CAMPBELL: In 1957 it was all from Venezuela. There would be a small amount of Kuwait come in in 1958.

MR. PATTILLO: Was all the crude purchased from Gulf or one of its affiliated companies?

MR. CAMPBELL: No.

MR. PATTILLO: What proportion of it is purchased from Gulf or an associated company of Gulf?

MR. CAMPBELL: Eighty per cent from Mene Grande.

MR. PATTILLO: In which Gulf has a 50 per cent interest?

MR. CAMPBELL: No, Gulf owns 100 per cent.

MR. PATTILLO: In connection with that Mene Grande, was there some arrangement between Gulf and International Petroleum relating to the production of that company?

MR. CAMPBELL: Well, Mene Grande is a 100 per cent owned Gulf company, and the concessions that are held and operated by Mene Grande are owned 50 per cent by Creole and International.

MR. PATTILLO: I knew they got in there somewhere. Now, Shell Oil also sneaks in there too somehow, doesn't it?

MR. CAMPBELL: Pardon?

MR. PATTILLO: I say Shell Oil sneaks in too somehow.

MR. CAMPBELL: I want to make a correction. 25% Shell, 25% International.

MR. FRAWLEY: And 50% Creole.

MR. CAMPBELL: That is right.

MR. FRAWLEY: 25% Shell and 25% Creole.

MR. CAMPBELL: 25% Shell and 25% International.

MR. PATTILLO: Now, your next refinery moving west is at Clarkson.

MR. CAMPBELL: That is right.

MR. PATTILLO: Its capacity is how much?

MR. CAMPBELL: 60,000 barrels daily.

MR. PATTILLO: What is the source of its crude?

MR. CAMPBELL: Mainly Canadian crude, Venezuelan crude coming in at the present time.

MR. PATTILLO: Is that Venezuelan crude coming in to round out --

MR. CAMPBELL: Specialty crudes for asphalt.

MR. PATTILLO: That crude that is coming in for the Clarkson plant from Venezuela, is that acquired from Gulf or some affiliated company of Gulf?

MR. CAMPBELL: No.

MR. PATTILLO: The next refinery moving west is where?

MR. CAMPBELL: Moose Jaw, Saskatchewan.

MR. PATTILLO: What is its capacity?

MR. CAMPBELL: 15,000 barrels daily.

MR. PATTILLO: It is using Canadian crude entirely.

MR. CAMPBELL: That's right.

MR. PATTILLO: And then moving on we come to Edmonton next, do we or Calgary?

MR. CAMPBELL: Calgary.

MR. PATTILLO: What is its capacity?

MR. CAMPBELL: 6,800.

MR. PATTILLO: It is using Canadian crude entirely?

MR. CAMPBELL: That is correct.

MR. PATTILLO: Edmonton?

MR. CAMPBELL: Edmonton 7,700.

MR. PATTILLO: Using Canadian crude entirely?

MR. CAMPBELL: That is correct.

MR. PATTILLO: Then you are in the process of building a refinery in British Columbia?

MR. CAMPBELL: That is right, 20,000 barrels daily.

MR. PATTILLO: When will it come into operation?

MR. CAMPBELL: It should be ready by

November of this year.

MR. PATTILLO: What is the intention regarding its source of supply? Will it be Canadian?

MR. CAMPBELL: Canadian crude.

MR. PATTILLO: Entirely?

MR. CAMPBELL: That is correct.

MR. PATTILLO: In addition to the refineries that we have just mentioned that are either in operation or are under construction, has the company any other plans for further expansion of its refinery processes?

MR. CAMPBELL: We have made no decisions on any further expansion.

MR. PATTILLO: While I am on the question of refineries, what refineries has Gulf in the United States which are in close proximity to the Canadian border on the West Coast and we will go as far south including the San Francisco Bay area.

MR. CAMPBELL: My understanding, Mr. Pattillo, is that Gulf have no refineries on the West Coast of the United States.

MR. PATTILLO: Do you know anything about a company by the name of Union?

MR. CAMPBELL: Yes.

MR. PATTILLO: Has it got any refineries on the West Coast?

MR. CAMPBELL: I understand so, yes.

MR. PATTILLO: Am I correct in thinking that Gulf has a very substantial investment in Union amounting to $120 million of debentures which are convertible into common shares of Union's at Gulf's option?

MR. CAMPBELL: That is my understanding, yes.

MR. PATTILLO: Where are Union's refineries on the West Coast?

MR. CAMPBELL: They have one in the Los Angeles area. I understand one in San Francisco Bay area.

MR. PATTILLO: Can you tell me the capacity of the one in the San Francisco Bay area?

MR. CAMPBELL: I will look it up for you.

MR. PATTILLO: Thank you.

MR. CAMPBELL: One at Oleum has the capacity of 45,800 barrels daily.

MR. PATTILLO: Do you know what the source of the crude is that it is using?

MR. CAMPBELL: No, I don't, Mr. Pattillo.

MR. PATTILLO: Can you tell me whether there are any other refineries of Gulf or Union that are in close proximity to the Interprovincial Pipe Line? By that I am thinking of these States of Ohio, Illinois, Michigan and the middle western States below the border.

MR. CAMPBELL: Gulf has one at Cincinnatti

and one at Toledo. I think that comes within the area asked.

MR. PATTILLO: What is the capacity of the one at Toledo?

MR. CAMPBELL: 42,000 barrels daily.

MR. PATTILLO: Do you know what the source of its crude is?

MR. CAMPBELL: No, I am not sure, Mr. Pattillo. I would imagine it would come from the southwestern - -

MR. PATTILLO: Does any of the crude of the B-A subsidiary in Texas land in that Toledo refinery?

MR. CAMPBELL: I cannot tell you that. I don't know.

MR. PATTILLO: Can you make inquiries and see if that information is obtainable?

MR. CAMPBELL: Yes, we will make inquiries.

MR. PATTILLO: Thank you. Now, in addition to the refinery at Toledo, have you any others that are closer to the Interprovincial Pipe Line than Toledo?

MR. CAMPBELL: Any Gulf refineries?

MR. PATTILLO: Yes.

MR. CAMPBELL: No. That would be the closest one. There is another at Cincinnati, Ohio.

MR. PATTILLO: Right. I think that is - -

MR. CAMPBELL: A little further distance.

MR. PATTILLO: What about Union? Has Union any other refineries that are in close proximity to these pipelines?

MR. CAMPBELL: I will have to look that up for you, Mr. Pattillo. I do not think so. I believe that their refineries are all in California and one small one in Montana..

MR. PATTILLO: Where is the one in Montana?

MR. CAMPBELL: Cut Bank.

MR. PATTILLO: What is its capacity?

MR. CAMPBELL: 3,800 barrels per day.

MR. PATTILLO: That is just south of the border, is it not?

MR. CAMPBELL: Yes, about 40 miles.

MR. PATTILLO: Have they any other refineries on the West Coast other than the one you gave us closer to the Canadian border?

MR. CAMPBELL: No, I think that is the closest one. There is one in the San Francisco area.

MR. PATTILLO: Does Union carry on a producing business in Alberta?

MR. LOUGHNEY: Yes, sir.

MR. PATTILLO: Do you know anything about its MPR?

MR. LOUGHNEY: I know nothing about it, no sir.

MR. PATTILLO: Who is the principal officer

of the Union here in Alberta, do you know?

MR. LOUGHNEY: I believe it is Mr. Babsom.

MR. PATTILLO: May I direct some questions to your Montreal operations. This crude that you are presently bringing into Montreal, are you bringing that in under any written contract to purchase?

MR. CAMPBELL: Yes, we are.

MR. PATTILLO: How long has that contract to run and what are your obligations under it?

MR. CAMPBELL: We have three contracts -- no, two contracts for Montreal. One of them expires at the end of 1960.

MR. PATTILLO: That contract is with whom?

MR. CAMPBELL: Creole. One expires at the end of 1954. I was incorrect -- there are three actually. One at the end of 1964 and the other at the end of 1966.

MR. PATTILLO: That one that expires at the end of 1964, with whom is that?

MR. CAMPBELL: Mene Grande.

MR. PATTILLO: The one that expires at the end of 1966, with whom is that?

MR.CAMPBELL: Also Mene Grande.

MR. PATTILLO: Now, under these contracts is B-A committed to take a daily minimum amount?

MR. CAMPBELL: We are under the one contract.

MR. PATTILLO: Which contract is that?

MR. CAMPBELL: The one that terminates

December 31, 1966, 11,000 barrels per day. The other one for the balance of our requirements including specialty crudes.

MR. PATTILLO: Am I correct in thinking that under that other one you are obligated to take all the excess of your Montreal refinery crude from it?

MR. CAMPBELL: Yes, we have a contract for the requirements.

MR. PATTILLO: So that you are under an obligation with Creole to take 11,000 barrels a day?

MR. CAMPBELL: May I correct that. By 11,000 barrels per day is a contract with Mene Grande.

MR. PATTILLO: Then you have another contract with Mene Grande to take all of the excess of your requirements.

MR. CAMPBELL: That is essentially correct, Mr. Pattillo, although there are clauses which provide for purchases of crude from others, depending on the prices.

MR. PATTILLO: Well, would you mind filing these contracts with the Chairman because it seems to me I am not going to be able to get the full effect from it in any other way. It would just be for examination by the Chairman.

MR. CAMPBELL: I would be glad to.

MR. PATTILLO: Can I get this, Mr. Campbell: is the effect of these contracts, about which you

have been talking, but until 1966 B-A oil could not purchase any of its crude requirements for its Montreal refineries from Canada if it wanted to do so without breaching its contract.

MR. CAMPBELL: Except under certain conditions, Mr. Pattillo.

MR. PATTILLO: Can you sum up those conditions for us? If that is your situation I can see why you don't want Canadian crude coming into Montreal very quickly.

MR. CAMPBELL: Let me read you from the contract:

"If in the future by reason of any statement "of policy, indication or wish of the "Canadian Government, the buyer deems it "advisable, that is British American, or if "the buyer is obligated by decree or any "order of said government to use Canadian crude "oil at its Montreal East refinery then the "buyer shall have the right to accept Canadian "crude oil and reduce its commitment under "this contract by an equivalent quantity".

MR. PATTILLO: So short of government intervention you have no right to voluntarily take Canadian crude at Montreal?

MR. CAMPBELL: Well, it depends on what you mean by "intervention". We feel this is fairly broad by reason of any statement or policy or

indication or wish of the Canadian Government and also by decree.

MR. COMMISSIONER HOWLAND: What is the date of that agreement, Mr. Campbell?

MR. CAMPBELL: September 1, 1955.

MR. PATTILLO: I assume, Mr. Campbell, would it be fair to say that that clause got in there at the request of B-A?

MR. CAMPBELL: That is correct.

MR. PATTILLO: And as Dr. Howland has brought out, this contract was entered into more than two years ago. Was B-A thinking in 1955 that the government might require at some time in the future the use of Canadian crude at Montreal?

MR. CAMPBELL: Mr. Pattillo, we felt that it was in our interest and in the interest of Canada that we would be protected to that extent.

MR. PATTILLO: Well, in other words you consider that a definite possibility?

MR. CAMPBELL: Yes.

MR. PATTILLO: Now, how do you get your crude from Venezuela to Portland?

MR. CAMPBELL: By a tank ship.

MR. PATTILLO: Do you own the tankers?

MR. CAMPBELL: We own one.

MR. PATTILLO: Does Gulf use any of the others?

MR. CAMPBELL: No.

MR. PATTILLO: Does any associate company of Gulf or B-A own any other than the one?

MR. CAMPBELL: No.

MR. PATTILLO: Are the other tankers that you are using under long-term charter?

MR. CAMPBELL: Yes, they are.

MR. PATTILLO: When would the charters terminate?

MR. CAMPBELL: One expires January 1,1965, one expires April, 1974, one expires February, 1959.

MR. PATTILLO: So that if a pipe line did go to Montreal you would be confronted with two long-term charters that would be outstanding that you would have to get rid of?

MR. CAMPBELL: That is right.

MR. PATTILLO: What are your rates that you are paying under the charter which has 1965

termination?

MR. CAMPBELL: I prefer to file that with the Chairman, Mr. Patillo.

MR. PATTILO: And would you do the same in connection with the others?

MR. CAMPBELL: Yes.

MR. PATTILLO: Now, do you transport all your crude with these four tankers, the one you own and the three you have under charter, long-term, or do you use any spot charters?

MR. CAMPBELL: We sometimes use spot charters.

MR. PATTILLO: What per cent of your crude that you are transporting to Montreal comes by way of spot charter?

MR. CAMPBELL: It will be very little this year, Mr. Pattillo. We are a little long on shipping.

MR. PATTILLO: Now, what do you figure it costs you per barrel to transship your crude from Venezuela to Montreal through the Portland-Montreal pipe line?

MR. CAMPBELL: That is the information I said we would have to file with the Chairman, Mr. Pattillo.

MR. PATTILLO: And would you file also the cost picture regarding the Middle East that you are bringing in for transportation?

MR. CAMPBELL: Yes.

MR. PATTILLO: Now, what per cent of your crude requirements for Montreal do you bring by tanker directly into Montreal?

MR. CAMPBELL: Very little; possibly one or two cargoes a year.

MR. PATTILLO: Now, regarding this Montreal-Portland pipe line, what per cent interest does B-A have in that? Is it 18 per cent?

MR. LOUGHNEY: Eighteen per cent, yes.

MR. PATTILLO: And is the cost of original investment by B-A in that substantially recovered?

MR. LOUGHNEY: No. We paid $542,000 for our shares, and we have received one very small dividend since.

MR. PATTILLO: Have you looked to see, supposing the Portland-Montreal pipe line was abandoned tomorrow, how much there would be in the company's coffers that would be divisible amongst the shareholders and what you would receive against that $500,000 investment?

MR. LOUGHNEY: How much equity we would receive?

MR. PATTILLO: How much you would get back, supposing the Portland pipe line was wound up tomorrow and it was unable to dispose of its pipe line?

MR. LOUGHNEY: It wouldn't be a case of getting anything back, it would be a case of how much we would put in.

MR. PATTILLO: The cash funds would be insufficient to discharge the debt?

MR. LOUGHNEY: Yes. The long-term debt is in excess of $7 million.

MR. PATTILLO: Do you know what its current liquid assets are?

MR. LOUGHNEY: We have the statements which are furnished as shareholders in Portland-Montreal. However, this pipe line is going to appear before the Commission, and I would prefer that you obtain that information from them.

MR. PATTILLO: All right, Mr. Loughney, thank you.

Now, in connection with this crude that you are buying for your Montreal refinery, is there any reduction, drawback, or discount from the posted price in Venezuela because you are entering into a long-term contract?

MR. CAMPBELL: We are paying the posted price, Mr. Pattillo.

MR. PATTILLO: For all your oil that is coming from Montreal you are paying the posted price?

MR. CAMPBELL: That is correct.

MR. PATTILLO: And you do not get any

drawback from that at any time?

MR. CAMPBELL: No, sir.

MR. PATTILLO: Now, I would like to deal, if I may, for a few moments with the producing situation in Alberta. Do you think that the present situation in Alberta is a satisfactory one so far as the producer is concerned?

MR. LOUGHNEY: So far as the market situation is concerned?

MR. PATTILLO: Yes.

MR. LOUGHNEY: No.

MR. PATTILLO: How long do you think the market situation has been unsatisfactory so far as the Alberta producer is concerned?

MR. LOUGHNEY: Well, it has been deteriorating since 1957, following the correction of the situation in the Suez Canal.

MR. PATTILLO: Do you think that if there is no improvement in the market situation for the Alberta producer in the near future the result may be very detrimental to the small independent producer?

May I say that when I say independent producer I am thinking of a person who is only in the producing business as as opposed to producing and refining.

MR. LOUGHNEY: Well, the loss of revenue resulting from low levels would certainly have an

effect on his operations as it does any company in the producing business.

MR. PATTILLO: Do you think that the sales of Alberta crude would go up if pro rationing was removed and the one-price system, everybody allowed to sell for whatever they thought they could get?

MR. LOUGHNEY: I don't believe it would have much effect under present conditions in the world as far as over-production is concerned, no.

MR. PATTILLO: If you removed pro rationing from Alberta do you think that price would remain the same or do you think it would drop, of Alberta crude?

MR. LOUGHNEY: Remove pro rationing, market demand?

MR. PATTILLO: Yes.

MR. LOUGHNEY: No, I don't believe it would affect the price.

MR. PATTILLO: You wouldn't expect any drop in price?

MR. LOUGHNEY: No, I wouldn't.

MR. PATTILLO: Now, Mr. Loughney, as an official of one of the substantial producers out here, do you consider that there is any obligation on people who are in the producing business in Alberta to go out and seek a market for their products?

MR. LOUGHNEY: W ll, speaking for ourselves, yes, we do.

MR. PATTILLO: Do you consider that there is any obligation on any person, any company that is coming into Alberta and has producing facilities and has refining facilities elsewhere to do something about taking some portion of their production in Canada into these refineries?

MR. LOUGHNEY: Well, if the production is accessible to their refineries at a competitive price of crude, I would say yes.

MR. PATTILLO: When you were an officer in Canadian Gulf -- and it was a subsidiary of Gulf, wholly owned subsidiary, wasn't it?

MR. LOUGHNEY: It was.

MR. PATTILLO: -- and you had production here in Alberta, did you ever approach the officers of Gulf in the United States to endeavour to get them to take some Alberta crude or Canadian crude in the Toledo refinery?

MR. LOUGHNEY: We had some discussions about it, yes.

MR. PATTILLO: Why wouldn't they do it?

MR. LOUGHNEY: At that time we didn't have sufficient crude to make it worth while, considering the fact that there is no pipe line into Toledo, and later on we succeeded in developing markets within Canada for crude.

MR. PATTILLO: Since this last July have you approached the Gulf people, you or any other officials of your company, to see whether, if a pipe line was extended to Toledo, Gulf would take any Canadian crude in its refinery there?

MR. LOUGHNEY: We have, yes.

MR. PATTILLO: What did they say?

MR. LOUGHNEY: Mr. Campbell, I believe, is more familiar with this.

MR. CAMPBELL: We had some discussions with them, Mr. Pattillo, about taking Canadian crude into the Toledo refinery; that has been within the last two or three months. We have not as yet been able to work anything out with
2 them.

MR. PATTILLO: Can you help us a little more than that? That really is not very informative to the Commission except that we have got a deal. Have they turned you down flatly?

MR. CAMPBELL: No.

MR. PATTILLO: Do you think they are prepared, if the price is right, to take Canadian crude to Toledo?

MR. CAMPBELL: I don't know, Mr. Pattillo. We are going to continue the discussions. We have been very busy in the last few weeks and haven't been able to get back to them.

MR. PATTILLO: I appreciate why you have been busy. I would wish you had been busy another day to have the answer to this. When you had your talk with the Gulf people about Toledo did they tell you what price would have to be laid down Toledo before they would be interested?

MR. CAMPBELL: No. As I indicated, Mr. Pattillo, our discussions so far have been of a preliminary nature, plus our intention to continue.

MR. PATTILLO: What I am interested in, how preliminary have they been? Have you just simply said, "Say, I would like to take up this question of Canadian crude with you at Toledo some time," and did they say, "That would be fine," or did you get a little further along than that?

MR. CAMPBELL: Well, we have indicated to them the types of crude and the prices at which those crudes lay into Sarnia at the present time, what crudes are available from Western Canada.

MR. PATTILLO: When you did that did you put it to them like this: "We have got some how or other to get more on the market, and we think you should assist by taking some of it into Toledo"?

MR. CAMPBELL: No, I wouldn't say we have gone that far with them. We have been

busily engaged in extending the market for Canadian crude in the Province of Ontario.

MR. PATTILLO: I am going to take that up in a moment, but I am trying to see how we will be able to put this Canadian crude on the market. Have you, or the Gulf, approached the Union Company and said, "We think you should be using some Canadian crude"?

MR. CAMPBELL: We haven't been talking to them in the last two or three months. We sold them some during the Suez difficulties. We have not approached them within the last two months, Mr. Pattillo. We don't know very much about Union.

MR. PATTILLO: Well, somebody must or they wouldn't have loaned them $120 million. When Union gave up buying after the Suez crisis was over did you make any attempt at that time to say to them, "Look, fellows, we think you should continue to take some Canadian crude. If the country is good enough to bring out this natural resource you should take some"?

MR. CAMPBELL: Yes, we attempted to continue selling them Canadian crude.

MR. PATTILLO: There wasn't a reasonable profit?

MR. CAMPBELL: It appears the tanker rates went down substantially.

MR. PATTILLO: According to your brief, there is very little difference in the cheapest crude laid down in the San Francisco Bay area?

MR. CAMPBELL: I don't think we included in our brief any prices in the San Francisco area.

MR. PATTILLO: Perhaps I am in wrong, perhaps I was just looking at the ---

MR. CAMPBELL: We understood they had crude commitments in California.

MR. PATTILLO: Do you know whether they had any long-term supply contracts such as the people in Montreal which might preclude them from taking Canadian crude?

MR. CAMPBELL: I don't know.

MR. PATTILLO: Mr. Loughney, from your experience in the oil business, is it usual for refiners to have requirement, total requirement contracts such as you have for your Montreal refinery?

MR. LOUGHNEY: I don't feel qualified to answer that question. I would prefer that Mr. Campbell answered it.

MR. CAMPBELL: We don't know much about the contract obligations of other refiners. That contract was negotiated at a time when there was no over-supply of crude oil and we wanted to assure ourselves of a continuous supply of crude oil for our Montreal refinery.

MR. PATTILLO: Do you know whether, for instance, the Toledo refinery would have any long-term contracts with anybody for its supply?

MR. CAMPBELL: I don't know.

MR. PATTILLO: They certainly didn't tell you that when you made this inquiry, in any event?

MR. CAMPBELL: No, we had no indication.

MR. PATTILLO: Would you endeavour to find out for the benefit of the Commission, Mr. Campbell, what the practice is in the United States as to long-term requirement contracts by different refineries?

MR. CAMPBELL: We will make inquiries, sir.

MR. PATTILLO: Now, Mr. Loughney, have you, since the market started to go off last year, gone to any of the producing companies who are operating in Alberta and who have connections in other countries to see what they might do about assisting to build up the market?

MR. LOUGHNEY: Other producing companies in Alberta?

MR. PATTILLO: Yes.

MR. LOUGHNEY: Building up the markets in Canada?

MR. PATTILLO: Building the markets up in Canada or building them up in the United States? I am thinking of the Standard of California, for

example.

MR. LOUGHNEY: No, I have not.

MR. PATTILLO: Now, I am very interested, in the light of what you have told us, about your Montreal commitment, about your ideas as to reversing this products pipe line, and I would like to ask you some questions, first of all, about the products pipe line and then this idea. How wide is the right-of-way? Do you know that?

MR. CAMPBELL: Well, most of it is 60 feet. I believe there are some places where it is as narrow as 10 feet.

MR. PATTILLO: Would these 10-feet widths be any considerable distance?

MR. CAMPBELL: No, they are not; they are primarily on Hydro rights-of-way where there are other pipe lines and there is a 20-foot right-of-way, which is normal.

MR. PATTILLO: Do you happen to know anything about the location of the line in the right-of-way?

MR. CAMPBELL: Well, most of it is within 15 to 20 feet of the edge ofthe right-of-way.

MR. PATTILLO: So it would be possible, in so far as the 60-foot strips are concerned, to put a crude line down there as well as in that right-of-way?

MR. CAMPBELL: Well, it would be possible to put it on the line of the right-of-way, yes.

MR. PATTILLO: Now, am I correct in thinking that you envisage that the Canadian refiners in the Toronto and Sarnia area using Canadian crude are going to be able to back up the products coming from Montreal which are being produced from foreign crude?

MR. LOUGHNEY: Yes, we do.

MR. PATTILLO: Would your company be able to, in that manner, cut down the requirements of your Montreal refinery without being in breach of your contracts with these Venezuelan producers?

MR. CAMPBELL: We have already done so, Mr. Pattillo.

MR. PATTILLO: And they haven't said anything about them.

MR. CAMPBELL: No.

MR. PATTILLO: I guess they have never

heard of self-induced frustration.

Now, what I am interested in, Mr. Loughney is why, with Canadian crude laid down at Clarkson costing more than foreign crude laid down at Montreal, you think that you are going to be able to back up the products coming out of Montreal in this products pipeline? Would you explain that to me?

MR. CAMPBELL: I am sorry, Mr. Pattillo, I missed the first part of your question.

MR. PATTILLO: Would the Reporter please read back the question?

THE REPORTER: "Now, what I am interested "in, Mr. Loughney is why, with Canadian crude "laid down at Clarkson costing more than "foreign crude laid down at Montreal, you think "that you are going to be able to back up the "products coming out of Montreal in this "products pipeline? Would you explain that to "me?"

MR. CAMPBELL: Well, there is a transportation cost involved as far as our own company is concerned. We have already done it.

MR. PATTILLO: If you are transporting from Montreal I can understand that once it gets to Toronto, because of the transportation cost, it may not be able to compete with the Clarkson crude refining.

MR. CAMPBELL: We think there is a meeting-place someplace between the two.

MR. PATTILLO: You think that someplace the costs become equivalent. Now, if you think that, don't you think it is rather strange that an international company such as British Petroleums would be considering building, as we understand they are according to their statement in the paper the other day, a very substantial refinery in Montreal?

MR. CAMPBELL: I would say that would depend on what their crude cost was.

MR. PATTILLO: They undoubtedly are going to be using foreign crude because they refer to wharfage and that sort of thing, and that must mean it is going to be brought in by way of tanker.

MR. CAMPBELL: What we understand is that they would use foreign crude.

MR. PATTILLO: Is that information of British Petroleums at all consistent with your views expressed in this brief that the Montreal market is going to drop off in size and the Toronto refiners are going to catch a good deal of its present market?

MR. CAMPBELL: We are hoping that that is what occurs, Mr. Pattillo.

MR. PATTILLO: Have you worked out, Mr. Campbell, what would be the situation -- let me put this. At the present time you are taking some

Venezuelan crude right into Clarkson, aren't you?

MR. CAMPBELL: That is correct.

MR. PATTILLO: How does the laid-down cost of that barrel compare with the laid-down cost of Canadian crude at Clarkson?

MR. CAMPBELL: I don't think that we can make a direct comparison. We can dig out for you the figures on what the laid-down costs are. In one case the crude is 10 to 11 gravity which is being brought in specifically for asphalt purposes. To make a comparison you would have to know all the circumstances with regard to the crudes.

MR. PATTILLO: You do know, don't you?

MR. CAMPBELL: We will be glad to supply the information.

MR. PATTILLO: What I am concerned about is whether it might not be very feasible, if one is considering merely the posted prices and transportation cost, to put Middle East and Venezuelan oil into Canada over the St. Lawrence Seaway as far as Clarkson at a price less than Canadian crude delivered over the pipelines. Have you ever given that any thought?

MR. CAMPBELL: Yes, we have given it some consideration.

MR. PATTILLO: Am I not correct in thinkin that that could very well happen if tanker rates stayed as they are today?

MR. CAMPBELL: Most of the ocean tankers that are in use today would not navigate the St. Lawrence Seaway except under very, very reduced loads.

MR. PATTILLO: I appreciate that; but they could come right into Montreal and you could transship very easily into large tankers with low draughts that could come up the St. Lawrence Seaway as it is to be constructed and opened in another year.

MR. CAMPBELL: Yes, but the larger, newer ships particularly cannot get into Montreal.

MR. PATTILLO: Well, supposing the fear I am expressing did happen, do you think that even though the price might be lower, we need worry about foreign crude transplanting and backing up Canadian crude?

MR. CAMPBELL: The statement of British American is that we feel we will continue to use Canadian crude at Clarkson.

MR. PATTILLO: So, really, in making that decision, you are looking at your economic position, your investment in facilities and so on, rather than the pure economic law of supply and demand as related to price?

MR. CAMPBELL: Well, we felt, with the

development of the reserves in Western Canada that we saw in 1947 to 1955, that the pressure would be sufficient from the crude oil developed in Western Canada that we should extend our Clarkson refinery rather than expand our Montreal refinery.

MR. PATTILLO: But these fellows out here do not think, obviously, you have gone far enough. They want you to go to Montreal.

However, what I am interested in is, if the criterion is what I suspect it is, namely, that the company's economic position rather than the question of price I have suggested is the situation, then, if a pipeline was built to Montreal which did not require any capital investment by British American and you were released from your commitments to take Venezuelan crude, wouldn't the same factors prevail at Montreal that prevail at Toronto as to the use of Canadian crude, with the one exception, and that is your loss of investment in the Portland-Montreal pipeline?

MR. CAMPBELL: Plus the competition from ocean-going crudes, Mr. Pattillo.

MR. PATTILLO: Supposing the Canadian Government said, "We will not permit foreign crudes to enter the country unless they enter at a price which is equivalent to the laid down price of Canadian crude at Montreal"?

Would there be any problem then, from

your company's point of view?

MR. CAMPBELL: We are law-abiding citizens, Mr. Pattillo, and we would certainly take into account any wishes or desires of the Canadian Government.

I think we have indicated that in the contract that we wrote several years ago.

MR. PATTILLO: I agree with that, Mr. Campbell, and I am not suggesting that you are not.

The other thing I was going to ask you is this: do you agree that, at the moment, the Alberta producer is confronted with a serious problem insofar as marketing his oil is concerned?

MR. CAMPBELL: Yes, I believe he has a serious problem.

MR. PATTILLO: Do you agree that if the producing industry is going to stay healthy, a greater market than they presently have must be obtained?

MR. LOUGHNEY: Yes, that is correct.

MR. PATTILLO: Do you agree that, in the interests of Canada as a whole, it is more desirable that the country use its own raw materials rather than being dependent on foreign producers and being required to lay out substantial amounts for foreign exchange?

MR. LOUGHNEY: Yes, I would agree it is in the interests of the country to use as much of its

natural resource as it can in its own economy.

MR. PATTILLO: When we talk about going to Montreal, is that not really all we are talking about, that we should be using Canadian crude to the greatest extent in the country if it is at all possible?

MR. LOUGHNEY: Yes, sir, we believe that. We first think that the Toronto market, in Ontario, should be completely served with Canadian crude, and then we could move further east.

MR. PATTILLO: Your view is that, someday, Canadian crude will go to Montreal and, in your opinion, should go to Montreal, is that it?

MR. LOUGHNEY: My view is that there is nothing against Canadian crude going to Montreal when the economics are in the right order.

MR. PATTILLO: Well, whose economics, Mr. Loughney? Are you talking about B-A's economics?

MR. LOUGHNEY: Those are the only ones we are primarily concerned with. Of course, we have a lot of thought and everything for our fellow man, but we are primarily concerned with our own.

MR. PATTILLO: I don't blame you.

MR. LOUGHNEY: That is where the pay-cheques come from.

MR. PATTILLO: I could make a remark.

From the standpoint of B-A alone, if Canadian crude was going into Montreal in place

of this foreign crude, the company's earnings would be up very substantially, wouldn't they?

MR. LOUGHNEY: If Canadian crude were going in, in place of foreign crude?

MR. PATTILLO: Yes.

MR. LOUGHNEY: Well, they would, if they went in at a competitive price.

MR.PATTILLO: Well, they would be if they went in at above the cost of finding and developing and lifting, wouldn't they?

MR. LOUGHNEY: To the extent that we supply our own crude.

MR. PATTILLO: And if the Montreal market was dedicated to Canadian crude entirely, have you calculated how much that would put up the per day production of B-A?

MR. LOUGHNEY: On what volume of crude? Say 200,000?

MR. PATTILLO: On 200,000.

MR. LOUGHNEY: That is about 8%.

MR. PATTILLO: About 16,000 barrels a day?

MR. LOUGHNEY: That is correct.

MR. PATTILLO: Now, in your calculations of the laid down cost of Canadian crude into Montreal, you use a transportation figure that is higher than any we have heard of yet. I was wondering whether you had had an opportunity to have your people examine the proposal of Mr. Brown and

Dutton-Williams.

MR. LOUGHNEY: We have not examined it in detail, no, and I might say, too, Mr. Pattillo, if I may, that the figures that we used were arrived at from information that we could obtain, some that we had available ourselves, and does not represent an engineered study of the cost.

MR. PATTILLO: The Dutton-Williams say that if we use an all-Canadian route that they could transport oil through a 30 inch pipeline to Montreal, with no take-offs, at a price of something more than 54¢. They also say that if you use a southern route, it would be something less than 52¢.

Have you had your people check that report to see whether or not you are in agreement with these figures?

MR. LOUGHNEY: Well, in the first place, we are not in agreement with the throughput figures, which have a very material effect on tariffs. If you recall, in our brief we forecast that the Montreal demand will go down to 205,000 barrels a day, which would have quite an effect on a pipeline, and that would be in the first year; but then there would be a recovery from that over a period of about five years, so we feel that would have quite a bearing on the pipeline tariff in the early years.

MR. PATTILLO: Did your people make any calculations to see how much, because of the difference

in throughput figures used by them in your views as to throughputs, the tariff would have to be raised, particularly in the early years?

MR. LOUGHNEY: Well, we have made some estimates, but our informationn is not in sufficient detail that we could make a comparison that would be a proper one for me to say today that any figures we may have used or somebody else may use would be right or wrong.

MR. PATTILLO: Have you any suggestions that you would like to make to the Commission as to how the Commission could satisfy itself as to what would be a probable, proper tariff for oil to Montreal?

MR. LOUGHNEY: Well, I believe there is a study that has been made by Dutton-Williams and, if that study were made available to the industry and we had an opportunity to consult with the people who made it and see if we could get our numbers in order, we might come up with some helpful suggestions for the Commission.

MR. PATTILLO: Then you would suggest that if the Commission asked Mr. Brown to make the Dutton-Williams survey available to the members of the industry, and particularly the Montreal refiners, that you would be prepared to look into it and make suggestions to the Commission as to what you think about the whole project?

MR. LOUGHNEY: We would look into it and tell you our thoughts on the matter, yes.

MR.PATTILLO: Mr. Chairman, although it is not 5 o'clock (I see it is only a quarter to) I am not quite prepared to go on any further at the moment. I would like to examine my notes. Perhaps, then, we can adjourn now and resume tomorrow morning at 9.30.

THE CHAIRMAN: Before we do that, I would like to ask a question. I was not here on the day the report of which you speak was given in testimony, or the result of it, by the Home Oil people. Is it a document which is now in the hands of the Commission?

MR. PATTILLO: We have, as part of the Home Oil brief, an interim report, giving aggregate figures, but we also have obtained about three copies of an engineered study, complete, which we have not yet filed as part of the record.

THE CHAIRMAN: I see. Thank you very much, Mr. Pattillo.

Well, gentlemen, we will adjourn now until 9.30 o'clock tomorrow morning, in this room.

---Whereupon the hearing adjourned, at 4.45 p.m., until 9.30 a.m., Friday, May 9, 1958.